Consolidated financial statements

Consolidated income statements

April 1 to March 31, in CHF million	Notes	2018/19	2017/18[1]
Sales	**2.2,2.3**	**2,763.2**	**2,645.9**
Cost of sales		(797.0)	(777.7)
Gross profit		**1,966.2**	**1,868.2**
Research and development[2]		(149.4)	(144.0)
Sales and marketing[2]		(1,015.7)	(982.8)
General and administration		(269.3)	(265.5)
Other income/(expenses), net	**2.4**	4.4	7.2
Operating profit (EBIT)[3]		**536.2**	**483.0**
Financial income	**4.2**	3.4	2.1
Financial expenses	**4.2**	(12.1)	(9.4)
Share of profit/(loss) in associates/joint ventures, net	**6.2**	2.1	3.2
Income before taxes		**529.6**	**478.9**
Income taxes	**5.1**	(69.4)	(71.5)
Income after taxes		**460.2**	**407.4**
Attributable to:			
Equity holders of the parent		454.1	400.1
Non-controlling interests		6.1	7.3
Basic earnings per share (CHF)	**2.5**	6.98	6.13
Diluted earnings per share (CHF)	**2.5**	6.95	6.11

1) The disclosure of the 2017/18 figures was adjusted to include acquisition-related amortization in the functions “Research and development” and “Sales and marketing” as disclosed in Note 2.1.

2) Includes acquisition-related amortization of CHF 1.0 million (previous year: 1.1 million) in “Research and development” and CHF 45.4 million (previous year: 48.3 million) in “Sales and marketing”. EBITA (Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization) amounts to CHF 582.5 million (previous year: CHF 532.5 million). Refer to Note 2.1

3) Earnings before financial result, share of profit/(loss) in associates/joint ventures and taxes (EBIT).

The Notes are an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

April 1 to March 31, in CHF million	Notes	2018/19	2017/18
Income after taxes		**460.2**	**407.4**
Other comprehensive income			
Actuarial (loss)/gain from defined benefit plans, net	7.3	(16.9)	15.0
Tax effect on actuarial result from defined benefit plans, net		2.3	(2.1)
Total items not to be reclassified to income statement in subsequent periods		**(14.6)**	**12.9**
Currency translation differences		(58.0)	93.2
Tax effect on currency translation items		1.3	(0.4)
Total items to be reclassified to income statement in subsequent periods		**(56.7)**	**92.8**
Other comprehensive income, net of tax		**(71.3)**	**105.7**
Total comprehensive income		**388.9**	**513.1**
Attributable to:			
Equity holders of the parent		383.6	504.0
Non-controlling interests		5.3	9.1

The Notes are an integral part of the consolidated financial statements.

Consolidated balance sheets

Assets CHF million	Notes	31.3.2019	31.3.2018
Cash and cash equivalents	4.1	374.8	552.1
Other current financial assets	4.4	11.0	4.4
Trade receivables	3.1	520.6	449.5
Current income tax receivables		9.2	6.7
Inventories	3.2	282.1	264.5
Other current operating assets	3.5	114.3	90.6
Total current assets		**1,311.9**	**1,367.8**
Property, plant and equipment	3.3	324.9	315.5
Intangible assets	3.4	2,463.2	2,466.4
Investments in associates/joint ventures	6.2	12.8	13.7
Other non-current financial assets	4.4	29.0	23.9
Other non-current operating assets[1]	3.5	6.5	
Deferred tax assets	5.1	144.2	114.6
Total non-current assets		**2,980.6**	**2,934.1**
Total assets		**4,292.5**	**4,302.0**

Liabilities and equity CHF million	Notes	31.3.2019	31.3.2018
Current financial liabilities	4.5	256.4	161.6
Trade payables		102.8	89.2
Current income tax liabilities		139.2	141.8
Short-term contract liabilities[1]	2.3	106.5	
Other short-term operating liabilities	3.7	296.0	275.7
Short-term provisions	3.6	129.2	117.9
Total current liabilities		**1,030.1**	**786.3**
Non-current financial liabilities	4.5	372.6	619.1
Long-term provisions	3.6	122.9	166.5
Long-term contract liabilities[1]	2.3	226.1	
Other long-term operating liabilities	3.7	26.0	113.9
Deferred tax liabilities	5.1	138.6	141.3
Total non-current liabilities		**886.3**	**1,040.8**
Total liabilities		**1,916.3**	**1,827.1**
Share capital	4.6	3.3	3.3
Treasury shares		(166.9)	(0.5)
Retained earnings and reserves		2,517.5	2,449.0
Equity attributable to equity holders of the parent		**2,353.8**	**2,451.7**
Non-controlling interests		22.3	23.2
Equity		**2,376.1**	**2,474.9**
Total liabilities and equity		**4,292.5**	**4,302.0**

[1] New balance sheet line item due to the implementation of IFRS 15 (refer to Note 2.3 and Note 7.8).
The Notes are an integral part of the consolidated financial statements.

Consolidated cash flow statements

April 1 to March 31, in CHF million	Notes		2018/19		2017/18
Income before taxes			**529.6**		**478.9**
Depreciation and amortization of tangible and intangible assets	3.3,3.4	127.6		134.8	
Loss on sale of tangible and intangible assets, net		0.4		0.5	
Share of gain in associates/joint ventures, net	6.2	(2.1)		(3.2)	
Decrease in long-term provisions and long-term contract liabilities		(16.3)		(29.0)	
Financial (income)/expense, net	4.2	8.7		7.2	
Share based payments		19.3		18.3	
Other non-cash items		(19.4)		3.0	
Income taxes paid		(64.4)	53.8	(46.8)	84.8
Cash flow before changes in net working capital			**583.5**		**563.7**
Increase in trade receivables		(84.5)		(31.2)	
(Increase)/decrease in other receivables and prepaid expenses		(20.7)		10.4	
(Increase)/decrease in inventories		(15.2)		2.2	
Increase/(decrease) in trade payables		12.2		(8.3)	
Increase/(decrease) in other payables, accruals, short-term provisions and short-term contract liabilities		57.9	(50.3)	(13.4)	(40.3)
Cash flow from operating activities			**533.2**		**523.4**
Purchase of tangible and intangible assets	3.3,3.4	(117.9)		(96.3)	
Proceeds from sale of tangible and intangible assets		0.6		0.8	
Cash consideration for acquisitions, net of cash acquired	6.1	(66.4)		(82.5)	
Cash consideration from divestments, net of cash divested	6.1	1.5		23.3	
Changes in other financial assets		(5.2)		(10.1)	
Interest received		1.1		1.4	
Cash flow from investing activities			**(186.3)**		**(163.4)**
Repayment of borrowings	4.5	(150.6)		(0.1)	
Share buyback program	4.6	(157.8)			
Sale of treasury shares	4.6	27.9		24.2	
Purchase of treasury shares	4.6	(64.7)		(50.5)	
Dividends paid by Sonova Holding AG		(169.8)		(150.3)	
Dividends to non-controlling interests		(6.1)		(8.8)	
Interest paid		(1.2)		(0.7)	
Cash flow from financing activities			**(522.1)**		**(186.2)**
Exchange (losses)/gains on cash and cash equivalents			(2.2)		3.9
(Decrease)/increase in cash and cash equivalents			**(177.4)**		**177.6**
Cash and cash equivalents at the beginning of the financial year			552.1		374.5
Cash and cash equivalents at the end of the financial year			**374.8**		**552.1**

The Notes are an integral part of the consolidated financial statements.

Consolidated changes in equity

CHF million

	Attributable to equity holders of Sonova Holding AG					
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2017	**3.3**	**2,419.2**	**(301.9)**	**(12.1)[1]**	**22.9**	**2,131.3**
Income for the period		400.1			7.3	407.4
Actuarial gain from defined benefit plans, net		15.0				15.0
Tax effect on actuarial result		(2.1)				(2.1)
Currency translation differences			91.4		1.8	93.2
Tax effect on currency translation			(0.4)			(0.4)
Total comprehensive income		**413.0**	**91.0**		**9.1**	**513.1**
Capital decrease – share buyback program[3]		(11.8)		11.8		
Share-based payments		4.5		11.3		15.8
Sale of treasury shares		(14.8)		39.0		24.2
Purchase of treasury shares				(50.5)		(50.5)
Dividend paid		(150.3)			(8.8)	(159.0)
Balance March 31, 2018	**3.3**	**2,659.9**	**(210.9)**	**(0.5)**	**23.2**	**2,474.9**

Balance April 1, 2018	**3.3**	**2,659.9**	**(210.9)**	**(0.5)**	**23.2**	**2,474.9**
Effect on initial application of IFRS 15 and IFRS 9[2]		(132.9)			(0.1)	(133.1)
Adjusted balance April 1, 2018	**3.3**	**2,527.0**	**(210.9)**	**(0.5)**	**23.1**	**2,341.9**
Income for the period		454.1			6.1	460.2
Actuarial loss from defined benefit plans, net		(16.9)				(16.9)
Tax effect on actuarial result		2.3				2.3
Currency translation differences			(57.2)		(0.8)	(58.0)
Tax effect on currency translation			1.3			1.3
Total comprehensive income		**439.5**	**(56.0)**		**5.3**	**388.9**
Share-based payments		4.9		13.9		18.8
Sale of treasury shares		(17.3)		45.2		27.9
Purchase of treasury shares[3]				(225.5)		(225.5)
Dividend paid		(169.8)			(6.1)	(175.8)
Balance March 31, 2019	**3.3**	**2,784.3**	**(266.8)**	**(166.9)**	**22.3**	**2,376.1**

1) Includes derivative financial instruments on treasury shares.
2) Further information on the effect of new accounting standards are disclosed in Note 7.8.
3) Further information on the share buyback program are disclosed in Note 4.6.
The Notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as of March 31, 2019

1. Basis for preparation

1.1 About this report

Compared to the prior year, the structure of the notes to the consolidated financial statements are redesigned in order to enhance transparency and relevance of the financial reporting information to the various stakeholders. These amendments include the following:

- Rearrangement of the structure of the notes.
- Reduction of complexity by including the respective accounting policies in the notes and highlighting important judgements and estimates.
- Presentation of the figures in millions instead of thousands.

In addition, the following changes with regard to the disclosure of Non-GAAP measures were made:

- Acquisition-related amortization, previously disclosed as a separate line item in the "Consolidated income statements" has been allocated to the functions "Research and development" and "Sales and marketing". The prior year amounts were restated as disclosed in Note 2.1.
- The Group refrains from disclosing EBITA (Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization) in the "Consolidated income statements". However, due to its relevance as key profit metric for internal as well as external purposes, EBITA is still included in the segment reporting (refer to Note 2.2). A reconciliation to the reported figures is provided in Note 2.1.

1.2 Corporate information

The Sonova Group (the "Group") specializes in the design, development, manufacture, worldwide distribution and service of technologically advanced hearing systems for adults and children with hearing impairment. The Group operates worldwide and distributes its products in over 100 countries through its own distribution network and through independent distributors. The ultimate parent company is Sonova Holding AG, a limited liability company incorporated in Switzerland. Sonova Holding AG's registered office is located at Laubisrütistrasse 28, 8712 Stäfa, Switzerland.

1.3 Basis of consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group companies at March 31, which are prepared in accordance with uniform accounting policies. The consolidated financial statements were prepared under the historical cost convention except for the revaluation of certain financial assets at market value, which were prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 17, 2019, and are subject to approval by the Annual General Shareholders' Meeting on June 13, 2019.

The consolidated financial statements are presented in millions of Swiss Francs (CHF) and rounded to the nearest hundred thousand. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amounts.

The consolidated financial statements include Sonova Holding AG as well as the domestic and foreign subsidiaries over which Sonova Holding AG exercises control. A list of the significant consolidated companies is given in Note 7.6.

Accounting policies of relevance for an understanding of the consolidated financial statements are set out in the specific notes to the financial statements.

1.4 Significant accounting judgments and estimates

Preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. This includes estimates and assumptions in the ordinary course of business as well as non-operating events such as the outcome of pending legal disputes. The estimates and assumptions are continuously evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable. Actual results may differ from these estimates and assumptions.

The main estimates and assumptions with a significant risk of resulting in a material adjustment are described in the following notes:

Description	**Further information**
Allocation of the transaction price to performance obligations	Note 2.3: Revenue
Capitalization of development costs	Note 3.4: Intangible assets
Impairment test	Note 3.4: Intangible assets
Provisions for warranty, returns and product liabilities	Note 3.6: Provisions
Deferred tax assets	Note 5.1: Taxes
Business combinations	Note 6.1: Acquisitions/disposals of subsidiaries
Defined benefit plans	Note 7.3: Employee benefits

1.5 Changes in accounting policies

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial instruments” beginning April 1, 2018 as described in Note 7.8.

In addition, in 2018/19 the Group adopted the following minor amendments to existing standards and interpretations, without having a significant impact on the Group’s result and financial position:

- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- Transfers to Investment Property – Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group has assessed the expected impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2019 and beyond. Of those standards that are not yet effective, only IFRS 16 is expected to have a material impact on the Group’s financial statements in the period of initial application, as summarized below.

IFRS 16 “Leasing”:
The standard will replace IAS 17 and sets out new principles for recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model that requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The main impact for the Group will be on the recognition of new assets and liabilities, primarily for its property and car lease agreements. In addition, the nature of the expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expenses on lease liabilities. With the transition, the Group will recognize additional lease liabilities and right-of-use of assets for an estimated amount of around CHF 282 million as per April 1, 2019. The impact on EBIT will not be material.

The Group chose the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings and will implement the new standard on April 1, 2019.

2. Operating result

2.1 Income statement reconciliation

The Group presents the "Consolidated income statement" based on a classification of costs by function and is continuously amending its business portfolio with acquisitions, resulting in acquisition-related intangibles (see section "Intangible assets" in Note 3.4) and related amortization charges. To calculate EBITA[1], which is the key profit metric for internal (refer to Note 2.2) as well as external purposes, acquisition-related amortization is separated from the individual functions as disclosed below.

April 1 to March 31, CHF million			2018/19
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**
Sales	**2,763.2**		**2,763.2**
Cost of sales	(797.0)		(797.0)
Gross profit	**1,966.2**		**1,966.2**
Research and development	(149.4)	1.0	(148.4)
Sales and marketing	(1,015.7)	45.4	(970.3)
General and administration	(269.3)		(269.3)
Other income/(expenses), net	4.4		4.4
Operating profit before acquisition-related amortization (EBITA)[1]			**582.5**
Acquisition-related amortization		(46.3)	(46.3)
Operating profit (EBIT)[2]	**536.2**		**536.2**

April 1 to March 31, CHF million			2017/18
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**
Sales	**2,645.9**		**2,645.9**
Cost of sales	(777.7)		(777.7)
Gross profit	**1,868.2**		**1,868.2**
Research and development	(144.0)	1.1	(142.9)
Sales and marketing	(982.8)	48.3	(934.5)
General and administration	(265.5)		(265.5)
Other income/(expenses), net	7.2		7.2
Operating profit before acquisition-related amortization (EBITA)[1]			**532.5**
Acquisition-related amortization		(49.5)	(49.5)
Operating profit (EBIT)[2]	**483.0**		**483.0**

1) Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization (EBITA).
2) Earnings before financial result, share of profit/(loss) in associates/joint ventures and taxes (EBIT).

2.2 Segment information

Information by business segments

The Group is active in the two business segments, hearing instruments and cochlear implants, which are reported separately to the Group's chief operating decision maker (Chief Executive Officer). The financial information that is provided to the Group's chief operating decision maker, which is used to allocate resources and to assess the performance, is primarily based on the sales analysis as well as the consolidated income statements and other key financial metrics for the two segments. The Group uses EBITA as key metric to measure profit or loss for both segments (refer to Note 2.1). Transactions between segments are based on market terms.

Hearing instruments:

This operating segment includes the activities of the design, development, manufacture, distribution and service of hearing instruments and related products. Research and development is centralized in Switzerland while some supporting activities are also performed in Canada and Sweden. Production of hearing instruments is concentrated in three production centers located in Switzerland, China, and Vietnam. Technologically advanced production processes are performed in Switzerland, whereas standard assembly of products is conducted in Asia. Most of the marketing activities are steered by the brand marketing departments in Switzerland, Canada, the United States, Germany and Sweden. The execution of marketing campaigns lies with the sales organizations in each market. Product distribution is done through sales organizations in the individual markets. The distribution channels of the Group vary in the individual markets depending on the sales strategy and the characteristics of the countries. The distribution channels can be split broadly into a retail business where Sonova operates its own store network and sells directly to end consumers and a hearing instruments business, reflecting the wholesale sales to independent audiologists, 3rd party retail chains, multinational and government customers.

Cochlear implants:

This operating segment includes the activities of the design, development, manufacture, distribution and service of hearing implants and related products. The segment consists of Advanced Bionics and the related sales organizations. Research and development as well as marketing activities of Advanced Bionics are centralized predominantly in the United States and Switzerland while production resides in the United States. The distribution of products is effected through sales organizations in the individual markets.

CHF million	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	Hearing instruments		Cochlear implants		Corporate/ Eliminations		Total	
Segment sales	2,527.2	2,425.2	241.1	225.8			2,768.3	2,651.0
Intersegment sales	(2.4)	(2.1)	(2.7)	(3.0)			(5.0)	(5.1)
Sales	**2,524.8**	**2,423.1**	**238.4**	**222.9**			**2,763.2**	**2,645.9**
Timing of revenue recognition								
At point in time	2,361.1		230.6				2,591.8	
Over time	163.7		7.8				171.5	
Total sales	**2,524.8**		**238.4**				**2,763.2**	
Operating profit before acquisition-related amortization (EBITA)	**563.1**	**520.6**	**19.7**	**11.9**	**(0.2)**		**582.5**	**532.5**
Depreciation, amortization and impairment	(107.2)	(112.8)	(20.4)	(22.0)			(127.6)	(134.8)
Segment assets	**3,921.0**	**3,780.7**	**632.3**	**608.3**	**(792.6)**	**(767.4)**	**3,760.7**	**3,621.5**
Unallocated assets[1)]							531.8	680.5
Total assets							**4,292.5**	**4,302.0**

1) Unallocated assets include cash and cash equivalents, other current financial assets (excluding loans), investments in associates/joint ventures, employee benefit assets and deferred tax assets.

Reconciliation of reportable segment profit CHF million	2018/19	2017/18
EBITA	582.5	532.5
Acquisition-related amortization	(46.3)	(49.5)
Financial costs, net	(8.7)	(7.2)
Share of gain in associates/joint ventures, net	2.1	3.2
Income before taxes	**529.6**	**478.9**

Entity-wide disclosures

Sales by business CHF million	2018/19	2017/18
Hearing instruments business	1,474.7	1,441.6
Audiological care business	1,050.1	981.5
Total hearing instruments segment	**2,524.8**	**2,423.1**
Cochlear implant systems	178.9	165.1
Upgrades and accessories	59.5	57.8
Total cochlear implants segment	**238.4**	**222.9**
Total sales	**2,763.2**	**2,645.9**

Sales and selected non-current assets by regions CHF million	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Country/region	Sales[1]		Selected non-current assets[2]	
Switzerland	31.5	29.6	274.1	251.4
EMEA (excl. Switzerland)	1,489.5	1,369.2	1,585.7	1,650.6
USA	746.7	759.6	674.3	655.2
Americas (excl. USA)	228.5	230.8	150.4	129.1
Asia/Pacific	267.0	256.7	116.5	109.3
Total Group	**2,763.2**	**2,645.9**	**2,800.9**	**2,795.6**

1) Sales based on location of customers.
2) Total of property, plant & equipment, intangible assets and investments in associates/joint ventures.

As common in this industry, the Sonova Group has a large number of customers. There is no single customer who accounts for more than 10% of total sales.

2.3 Revenue

The Group generates revenue primarily from the sale of hearing instruments, cochlear implants and related services. A disaggregation of revenue from contracts with customers is included in Note 2.2. The following provides information about the Groups revenue recognition policies, performance obligations and related contract assets and liabilities.

The following table summarizes the contract assets and contract liabilities related to contracts with customers:

Contract balances CHF million	**31.3.2019**	**1.4.2018**
Contract assets	9.4	8.9
Contract liabilities	332.7	335.0

Contract liabilities relate to advance consideration received from customers for the Group's various services, such as extended warranties, loss and damage and battery plans. In addition to the contract liabilities, the Group also recognizes contract assets that relate to loss and damage services. Contract assets are presented within other operating assets (refer to Note 3.5) in the consolidated balance sheets.

Significant changes in the contract liabilities during the period are as follows:

Movement in contract liabilities CHF million	**2018/19**
Balance April 1	335.0
Changes through business combinations	(0.2)
Increase due to advance consideration received in the period	175.9
Decrease due to revenue recognized in the period that,	
– was included in the contract liabilities at the beginning of the period	(105.9)
– relates to consideration received in the period	(65.6)
Exchange differences	(6.6)
Balance March 31	**332.7**
Expectation on timing of revenue recognition:	
Within 1 year	106.5
Within 2 years	120.6
Within 3 years	51.3
Within 4 years	21.0
More than 4 years	33.2

No material revenue was recognized in the current period from performance obligations satisfied in previous periods.

Accounting policies

The Group recognizes revenue at point in time when ownership of the products is transferred to the buyer, mainly upon delivery. The transaction price is adjusted for any variable elements, such as rebates and discounts. For audiological care customers, revenue recognition usually occurs after fitting of the device or when the trial period lapses. For hearing instruments sold in bundled packages (i.e. including accessories and services), the transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling price of all performance obligations in the contract.

For cochlear implants, sales are generally recognized at point in time when ownership of the products is transferred to the buyer (mainly hospitals), either at delivery or after surgery.

When the customer has a right to return the product within a given period, the amount of revenue is adjusted for expected returns, which are estimated based on historical product return rates. A return provision for the expected returns is recognized as an adjustment to revenue. In addition, an asset for the right to recover returned goods is recognized measured by reference to the carrying amount, which is presented as part of other current operating assets.

The Group also offers various services, such as extended warranties, loss and damage and battery plans. Revenue for these services is predominantly recognized on a straight-line basis over the service period. In the majority of countries in which the Group operates, the standard warranty period is two years and the extended warranty covers periods beyond the second year. Loss and damage is offered in some, but not all countries, in which the Group operates. This service assures replacement of hearing instruments that are not covered by the warranty. In some countries, the Group reinsures loss and damage. Insurance costs are capitalized as contract assets and are recognized as cost of sales over the loss and damage service period.

Payment terms vary significantly across countries and also depend on whether the customer is a private or public customer.

Accounting judgements and estimates

In order to allocate the transaction price to each performance obligation in a contract, management estimates the standalone selling price of the products and services at contract inception. Mostly, the standalone selling price is based on established price lists. For loss and damage services, management considers the likelihood of a customer claim in the calculation of the standalone selling price.

If the sum of the standalone selling prices of a bundle of goods or services exceeds the consideration in a contract, the discount is allocated proportionally to all of the performance obligations in the contract unless there is observable evidence that the discount relates to only one or some of the performance obligations.

2.4 Other income/expenses, net

"Other income/expenses, net" in the 2018/19 financial year amounts to CHF 4.4 million (previous year CHF 7.2 million). The regular and systematic assessment of the provision for product liabilities in the cochlear implants segment led to a release of CHF 4.1 million (previous year CHF 1.8 million). In addition, the divestment of audiological care stores in the USA led to a gain of CHF 0.3 million (previous year other income from divestments CHF 5.4 million). For further information refer to Note 3.6 "Provisions" and Note 6.1 "Acquisitions/disposals of subsidiaries".

2.5 Earnings per share

Basic earnings per share	**2018/19**	**2017/18**
Income after taxes (CHF million)	454.1	400.1
Weighted average number of outstanding shares	65,066,736	65,319,359
Basic earnings per share (CHF)	**6.98**	**6.13**

Diluted earnings per share	**2018/19**	**2017/18**
Income after taxes (CHF million)	454.1	400.1
Weighted average number of outstanding shares	65,066,736	65,319,359
Adjustment for dilutive share options	268,205	216,787
Adjusted weighted average number of outstanding shares	65,334,941	65,536,146
Diluted earnings per share (CHF)	**6.95**	**6.11**

Accounting policies

Basic earnings per share is calculated by dividing the income after taxes attributable to the ordinary equity holders of the parent company by the weighted average number of shares outstanding during the year.

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2012 through to 2019 and which have not yet been exercised. Options that are out-of-the-money (compared to average share price) are not considered. The calculation of diluted earnings per share is based on the same income after taxes for the period as is used in calculating basic earnings per share.

3. Operating assets and liabilities

3.1 Trade receivables

CHF million	31.3.2019	31.3.2018
Trade receivables	559.6	481.5
Provision for doubtful receivables	(39.0)	(31.9)
Total	**520.6**	**449.5**

As is common in this industry, the Sonova Group has a large number of customers. There is no significant concentration of credit risk. The aging of trade receivables and related provisions is disclosed in Note 4.7.

During 2018/19, the Group utilized CHF 2.2 million (previous year CHF 9.7 million) of the provision for doubtful receivables to write-off receivables.

The carrying amounts of trade receivables are denominated in the following currencies:

CHF million	31.3.2019	31.3.2018
BRL	18.2	18.8
CAD	22.4	21.5
CHF	20.9	14.6
EUR	203.3	177.6
GBP	22.0	17.8
USD	164.2	131.9
Other	69.8	67.3
Total trade receivables, net	**520.6**	**449.5**

Accounting policies

Trade receivables are initially recorded at original invoice amount and subsequently measured at amortized cost using the effective interest method, less loss allowance. The Group applies the IFRS 9 simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for trade receivables. This approach considers historical credit loss experience as well as forward-looking factors (see Note 4.7). The charges to the income statement are included in general and administration costs. Due to the short-term nature of trade receivables, their carrying amount is considered to approximate their fair value.

3.2 Inventories

CHF million	31.3.2019	31.3.2018
Raw materials and components	49.6	45.0
Work-in-process	96.6	90.0
Finished products	172.6	168.9
Allowances	(36.8)	(39.5)
Total	**282.1**	**264.5**

The “cost of sales” corresponding to the carrying value of inventory (which excludes freight, packaging, logistics as well as certain overhead cost) amounted in 2018/19 to CHF 666.0 million (previous year CHF 672.3 million). The Group recognized write-downs of CHF 29.4 million (previous year CHF 18.2 million) on inventories in cost of sales.

Accounting policies

Purchased raw materials, components and finished goods are valued at the lower of cost or net realizable value. To evaluate cost, the standard cost method is applied, which approximates historical cost determined on a first-in first-out basis.

Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value. Standard costs take into account normal levels of materials, supplies, labor, efficiency, and capacity utilization. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion (where applicable) and selling expenses.

Allowances are established for slow moving, phase out and obsolete stock.

3.3 Property, plant and equipment

CHF million					**2018/19**
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	195.5	294.3	343.8	10.6	844.2
Changes through business combinations		0.6	1.4		2.0
Additions	4.8	28.8	35.4	8.1	77.0
Disposals		(16.3)	(20.0)		(36.4)
Transfers		1.3	7.4	(8.7)	
Exchange differences	(1.3)	(2.6)	(10.7)	(0.1)	(14.7)
Balance March 31	**199.0**	**306.0**	**357.2**	**9.8**	**872.1**
Accumulated depreciation					
Balance April 1	(74.0)	(220.0)	(234.7)		(528.7)
Additions	(5.8)	(25.5)	(31.5)		(62.8)
Disposals		15.3	19.3		34.6
Transfers		2.5	(2.5)		
Exchange differences	0.6	1.6	7.4		9.7
Balance March 31	**(79.2)**	**(226.1)**	**(242.0)**		**(547.2)**
Net book value					
Balance April 1	121.5	74.3	109.1	10.6	315.5
Balance March 31	**119.8**	**79.9**	**115.3**	**9.8**	**324.9**

CHF million					2017/18
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	195.0	277.3	313.3	5.4	791.1
Changes through business combinations	0.0	0.1	2.3		2.4
Additions	1.4	22.3	26.7	10.9	61.2
Disposals	(0.1)	(11.2)	(19.5)		(30.7)
Transfers	(3.1)	3.0	5.7	(5.6)	
Exchange differences	2.2	2.9	15.2	(0.1)	20.3
Balance March 31	**195.5**	**294.3**	**343.8**	**10.6**	**844.2**
Accumulated depreciation					
Balance April 1	(69.2)	(203.1)	(208.5)		(480.8)
Additions	(5.6)	(25.9)	(31.3)		(62.8)
Disposals	0.0	10.6	17.8		28.5
Transfers	1.7	0.3	(2.0)		
Exchange differences	(1.0)	(1.9)	(10.8)		(13.7)
Balance March 31	**(74.0)**	**(220.0)**	**(234.7)**		**(528.7)**
Net book value					
Balance April 1	125.8	74.2	104.9	5.4	310.3
Balance March 31	**121.5**	**74.3**	**109.1**	**10.6**	**315.5**

Pledged fixed assets amounted to CHF 0.0 million (previous year CHF 0.1 million).

There are no assets held under finance leases.

Accounting policies

Property, plant and equipment is valued at purchase or manufacturing cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the expected useful lifetime of the individual assets or asset categories. Where an asset comprises several parts with different useful lifetimes, each part of the asset is depreciated separately over its applicable useful lifetime.

The applicable useful lifetimes are 25 – 40 years for buildings and 3 – 10 years for production facilities, machinery, equipment, and vehicles. Land is not depreciated. Leasehold improvements are depreciated over the shorter of useful life or lease term.

Subsequent expenditure on an item of tangible assets is capitalized at cost only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditure for repair and maintenance, which do not increase the estimated useful lifetimes of the related assets are recognized as an expense in the period in which they are incurred.

The Group assesses at each reporting date, whether there is any indication, that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. If the recoverable amount is lower than carrying amount, an impairment loss is recognized.

3.4 Intangible assets

CHF million	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total 2018/19
Cost					
Balance April 1	2,094.4	645.3	165.1	84.9	2,989.7
Changes through business combinations	55.4	22.3		0.1	77.8
Additions			30.4	10.5	40.9
Disposals	(0.3)	(6.5)		(3.2)	(10.0)
Exchange differences	(32.9)	(25.2)	0.1	(0.4)	(58.4)
Balance March 31	**2,116.7**	**636.0**	**195.5**	**91.9**	**3,040.1**
Accumulated amortization and impairments					
Balance April 1	(147.2)	(264.2)	(47.0)	(64.9)	(523.3)
Additions		(46.3)[2]	(12.3)	(6.2)	(64.8)
Disposals		4.3		3.1	7.4
Exchange differences	(6.1)	9.4		0.5	3.8
Balance March 31	**(153.4)**	**(296.8)**	**(59.2)**	**(67.5)**	**(576.9)**
Net book value					
Balance April 1	1,947.2	381.1	118.1	20.0	2,466.4
Balance March 31	**1,963.3**	**339.1**	**136.3**	**24.4**	**2,463.2**

1) Intangibles relating to acquisitions include primarily customer relationships and trademarks.
2) Relates to research and development (CHF 1.0 million) and sales and marketing (CHF 45.4 million).

CHF million	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total 2017/18
Cost					
Balance April 1	1,969.2	607.0	135.1	87.5	2,798.7
Changes through business combinations	77.9	26.7		0.1	104.6
Additions			30.1	5.0	35.1
Disposals	(18.2)	(18.6)		(8.1)	(44.9)
Exchange differences	65.6	30.3	(0.1)	0.5	96.2
Balance March 31	**2,094.4**	**645.3**	**165.1**	**84.9**	**2,989.7**
Accumulated amortization and impairments					
Balance April 1	(154.1)	(224.9)	(34.5)	(62.2)	(475.7)
Additions		(49.5)[2]	(12.5)	(10.1)	(72.0)
Disposals		11.1		8.3	19.4
Exchange differences	6.8	(1.0)		(0.9)	4.9
Balance March 31	**(147.2)**	**(264.2)**	**(47.0)**	**(64.9)**	**(523.3)**
Net book value					
Balance April 1	1,815.2	382.0	100.6	25.3	2,323.1
Balance March 31	**1,947.2**	**381.1**	**118.1**	**20.0**	**2,466.4**

1) Intangibles relating to acquisitions include primarily customer relationships and trademarks.
2) Relates to research and development (CHF 1.1 million) and sales and marketing (CHF 48.3 million).

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2018/19 and 2017/18 financial years.

Hearing instruments

As of March 31, 2019, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,642.4 million (prior year CHF 1,639.0 million).

The cash flow projections were based on the most recent business plan. The business plan for the hearing instruments business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.2% (prior year 2.2%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.4% (prior year 8.4%) was used. The Group performed a sensitivity analysis, which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

Cochlear implants

As of March 31, 2019, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 320.9 million (prior year CHF 308.2 million).

The cash flow projections were based on the most recent business. The business plan for the cochlear implants business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.4% (prior year 2.4%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.7% (prior year 8.6%) was used. The Group performed a sensitivity analysis, which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

The capitalized development costs are reviewed on a regular basis. In the current financial year 2018/19, this review did not lead to any valuation adjustments. The capitalized development costs are included in the reportable segment “cochlear implants” disclosed in Note 2.2.

Accounting policies

Goodwill

Goodwill is recognized for any difference between the cost of the business combination and the net fair value of the identifiable assets, liabilities, and contingent liabilities (refer to accounting policies in Note 6.1). Goodwill is not amortized, but is assessed for impairment annually, or more frequently if events or changes in circumstances indicate that its value might be impaired. For the purpose of impairment testing, goodwill is allocated to the cash-generating unit, which is expected to benefit from the synergies of the corresponding business combination. For the Group, a meaningful goodwill allocation can only be done at the level of the segments, hearing instruments and cochlear implants. This also reflects the level that the goodwill is monitored by management. For both of the two cash-generating units, the recoverable amount is compared to the carrying amount. The carrying amount is determined based on a value-in-use calculation considering a five-year cash flow projection period and extrapolated using a terminal value for cash flows beyond the planning period. The cash flow projections are estimated on the basis of the strategic plan approved by the Board of Directors. Future cash flows are discounted with the Weighted Average Cost of Capital (WACC) including the application of the Capital Asset Pricing Model (CAPM).

Intangibles, excluding goodwill
Purchased intangible assets such as software, licenses and patents are measured at cost less accumulated amortization (applying the straight-line method) and any impairment in value. Software is amortized over a useful lifetime of 3 – 5 years. Intangibles relating to acquisitions of subsidiaries (excluding goodwill) consist generally of technology, client relationships, customer lists, and brand names, and are amortized over a period of 3 – 20 years. Other intangible assets are generally amortized over a period of 3 – 10 years. For capitalized development costs in the cochlear implants segment, amortization starts when the capitalized asset is ready for use, which is generally after receipt of approval from regulatory bodies. These assets are amortized over the estimated useful lifetime of 2 – 7 years applying the straight-line method. For in-process capitalized development costs, these capitalized costs are tested annually for impairment. Except for goodwill, the Sonova Group has no intangible assets with an indefinite useful life.

Research costs are expensed as incurred. Development costs are capitalized only if the identifiable asset is commercially and technically feasible, can be completed, its costs can be measured reliably and will generate probable future economic benefits. Group expenditures, which fulfill these criteria are limited to the development of tooling and equipment as well as costs related to the development of cochlear implants. All other development costs are expensed as incurred. In addition to the internal costs (direct personnel and other operating costs, depreciation on research and development equipment and allocated occupancy costs), total costs also include externally contracted development work. Such capitalized intangibles are recognized at cost less accumulated amortization and impairment losses.

Accounting judgements and estimates
Goodwill
The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations and as such is significantly impacted by the projected cash flows, the discount rate, and the long-term growth rate, which are subject to management judgment. Actual cash flows as well as other input parameters could vary significantly from these estimates.

Capitalized development costs
The Group capitalizes costs relating to the development of cochlear implants. The capitalized development costs are reviewed on a regular basis as a matter of a standard systematic procedure. In determining the commercial as well as the technical feasibility, management judgment may be required.

3.5 Other operating assets

Other current operating assets CHF million	**31.3.2019**	**31.3.2018**
Other receivables	69.0	64.5
Prepaid expenses	32.0	26.1
Contract assets	2.9	
Right to recover products	10.4	
Total	**114.3**	**90.6**

Other non-current operating assets CHF million	**31.3.2019**	**31.3.2018**
Contract assets	6.5	
Total	**6.5**	

The largest individual items included in other receivables are recoverable value added taxes and deposits. Prepaid expenses mainly consist of advances to suppliers. On adoption of IFRS 15, contract assets were recognized in relation to reinsurance of loss and damage services and rights to recover returned goods were recognized in relation to hearing instrument sales with a right of return (refer to Note 2.3).

3.6 Provisions

CHF million					2018/19
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	125.6	9.2	118.4	31.3	284.5
Effect on initial application of IFRS 15	(19.8)				(19.8)
Changes through business combinations				0.8	0.8
Amounts used	(71.2)	(4.3)	(19.0)	(13.3)	(107.8)
Reversals	(3.2)	(2.3)	(4.1)	(5.0)	(14.5)
Increases	80.8	5.0		18.9	104.7
Present value adjustments			0.7		0.7
Exchange differences	(1.0)	0.1	4.8	(0.4)	3.5
Balance March 31	**111.3**	**7.7**	**100.9**	**32.2**	**252.1**
thereof short-term	87.6	7.7	15.0	19.0	129.2
thereof long-term	23.7		85.9	13.3	122.9

CHF million					2017/18
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	117.5	11.2	132.5	37.0	298.2
Changes through business combinations	7.4	0.0		0.4	7.9
Amounts used	(64.8)	(6.4)	(7.2)	(18.2)	(96.7)
Reversals	(8.2)	0.0	(1.8)	(4.2)	(14.2)
Increases	71.5	4.7		15.6	91.8
Disposals				(0.3)	(0.3)
Present value adjustments	0.0		0.7	(0.2)	0.5
Exchange differences	2.2	(0.3)	(5.7)	1.2	(2.7)
Balance March 31	**125.6**	**9.2**	**118.4**	**31.3**	**284.5**
thereof short-term	79.7	9.2	15.4	13.6	117.9
thereof long-term	45.9		103.0	17.7	166.5

Warranty and returns

The provision for warranty and returns considers any costs arising from the warranty given on products sold. In general, the Group grants a 12 to 24 months warranty period for hearing instruments and related products and up to 10 years on cochlear implants. The calculation is based on turnover, past experience and projected number and cost of warranty claims and returns. The decrease in provision for warranty is due to the implementation of IFRS 15 as of April 1, 2018. Under IFRS 15, extended warranty is treated as a separate performance obligation with revenue being allocated to contract liabilities.

Reimbursement to customers

The provision for reimbursement to customers considers commitments to provide volume rebates. The provision is based on expected volumes. The large majority of the cash outflows are expected to take place within the next 12 months.

Product liabilities

The provision for product liabilities considers the expected cost for claims in relation to the voluntary recall of cochlear implant products of Advanced Bionics LLC in 2006. The calculation of this provision is based on past experience regarding the number and cost of current and future claims. The provision is estimated based on a financial model. Generally, the model used to calculate the provision for the end of the 2018/19 financial year is consistent to the prior year. It covers the cost of replacement products, medical expenses, compensation for actual damages as well as legal fees. The provision is reassessed on a regular and systematic basis. Further improvements in the expected number and cost of current and future claims led to a reduction of CHF 4.1 million (previous year CHF 1.8 million) in “other income/(expense), net”. The timing of the cash outflows corresponding to the said provision for product liabilities is uncertain since it will largely depend on the outcome of administrative and legal proceedings. Considering periods of limitation, claims will have to be filed until 2026 in most jurisdictions. However, depending on the length of proceedings and negotiations, further years may pass until all claims are settled. We expect the main cash outflow relating to this provision to occur within the next 8 years, depending on the outcome of individual legal proceedings.

Other provisions

Other provisions include provisions for specific business risks such as litigation and restructuring costs, which arise during the normal course of business. The timing of cash outflows for the other provisions is expected to take place within the next two years.

Accounting policies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows.

Accounting judgements and estimates

Provisions are based upon management’s best estimate, taking into consideration past experience regarding the number and cost of claims. Management believes that the provisions are adequate based upon currently available information. However, given that judgment has to be applied, the actual costs and results may differ from these estimates.

3.7 Other operating liabilities

Other short-term operating liabilities CHF million	**31.3.2019**	**31.3.2018**
Other payables	74.2	53.3
Accrued expenses	221.7	192.6
Deferred income	0.1	29.8
Total	**296.0**	**275.7**

Other long-term operating liabilities CHF million	**31.3.2019**	**31.3.2018**
Long-term deferred income	0.0	106.5
Retirement benefit obligations	26.0	7.4
Total	**26.0**	**113.9**

Other payables include amounts to be remitted for withholding taxes, value added taxes, social security payments, employees' income taxes deducted at source, and customer prepayments. Accrued expenses include salaries, social expenses, vacation pay, bonus and incentive compensation as well as accruals for outstanding invoices from suppliers. The decrease in short- and long-term deferred income is due to the implementation of IFRS 15. As of April 1, 2018, revenue related deferred income is included in contract liabilities (refer to Note 2.3).

The retirement benefit obligation relates to defined benefit plans. For details refer to Note 7.3.

3.8 Leasing commitments

Lease obligations CHF million	**31.3.2019**	**31.3.2018**
Due less than 1 year	76.6	77.6
Due 1 year to 5 years	137.0	141.7
Due more than 5 years	21.0	27.7
Total	**234.6**	**247.0**

The operating lease commitments relate primarily to long-term property lease agreements, which are, in general, renewable.

In the 2018/19 financial year, CHF 102.6 million was recognized as expenses for leases in the consolidated income statement (previous year CHF 101.2 million).

As of March 31, 2019 and 2018, the Group had no financial lease obligations.

Accounting policies
There are no assets that are held under leases, which effectively transfer to the Group the risks and rewards of ownership (finance leases). Therefore, all leases are classified as operating leases, and payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

3.9 Contingent assets and liabilities

Guarantees

At March 31, 2019 and 2018, there were no pledges given to third parties other than in relation to bank loans and mortgages.

Deposits in the amount of CHF 5.1 million (previous year CHF 3.7 million) have been pledged in relation to bank guarantees. Mortgages are secured by properties in the amount of CHF 0.1 million (previous year CHF 0.1 million). The net book value of these properties amounts to CHF 0.8 million at March 31, 2019 (previous year CHF 0.9 million). Open purchase orders as of March 31, 2019 and 2018, were related to recurring business activities.

Lawsuits and disputes

In 2007, the Alfred E. Mann Foundation for Scientific Research (AMF) initiated a lawsuit claiming patent infringement by Cochlear Ltd. on two patents. Advanced Bionics LLC had exclusively licensed the patents in question from AMF and joined AMF as a plaintiff. On November 4, 2018, a U.S. District Court reinstated a jury judgment from 2014 and awarded damages of USD 268 million. Advanced Bionics will be entitled to a portion of any damages awarded once the verdict is final. Cochlear has appealed the verdict and notice was filed on November 12, 2018. We expect it could take two years before a final judgement is rendered.

On October 4, 2018 MED-EL Elektronische Geräte GmbH and MED-EL Corporation, US, filed a complaint against Advanced Bionics LLC in the US federal court for the district of Delaware for alleged patent infringement of two MED-EL patents related to a recently launched product. Advanced Bionics believes the complaint has no merits and is currently assessing all its options of defense.

4. Capital structure and financial management

4.1 Cash and cash equivalents

CHF million	31.3.2019	31.3.2018
Cash on hand	1.2	1.3
Current bank accounts	312.2	413.6
Term deposits	61.4	137.2
Total	**374.8**	**552.1**

Bank accounts and term deposits are mainly denominated in CHF, EUR and USD. The assessment on the credit risk related to cash and cash equivalents is disclosed in Note 4.7.

Accounting policies
Cash and cash equivalents includes cash on hand and cash at banks, bank overdrafts, term deposits and other short-term highly liquid investments with original maturities of three months or less. The consolidated cash flow statement summarizes the movements in cash and cash equivalents.

4.2 Financial income/expenses, net

CHF million	2018/19	2017/18
Interest income	1.6	1.6
Other financial income	1.8	0.5
Total financial income	**3.4**	**2.1**
Interest expenses	(1.7)	(1.3)
Unwinding of the discount on provisions	(0.7)	(0.5)
Foreign exchange hedge costs	(6.3)	(5.3)
Other financial expenses	(3.4)	(2.3)
Total financial expenses	**(12.1)**	**(9.4)**
Total financial income/expenses, net	**(8.7)**	**(7.2)**

Other financial expenses in 2018/19 include, amongst other items, primarily the fair value adjustments of financial instruments.

4.3 Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 13, 2019, that a dividend of CHF 2.90 shall be distributed (previous year CHF 2.60).

4.4 Other financial assets

Other current financial assets

CHF million			31.3.2019			31.3.2018
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Loans and receivables	Financial assets at fair value through profit or loss	Total
Marketable securities		0.0	0.0		0.1	0.1
Positive replacement value of forward foreign exchange contracts		0.3	0.3		0.5	0.5
Loans to third parties	10.6		10.6	3.8		3.8
Total	**10.6**	**0.3**	**11.0**	**3.8**	**0.6**	**4.4**

The Group regularly hedges its net exposure from foreign currency balance sheet positions with forward contracts. Such contracts are not qualified as cash flow hedges and are, therefore, not accounted for using hedge accounting principles. Gains and losses on these transactions are recognized directly in the income statement (refer to Note 4.7).

Other non-current financial assets

CHF million			31.3.2019			31.3.2018
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Loans and receivables	Financial assets at fair value through profit or loss	Total
Loans to associates	9.3		9.3	6.7		6.7
Loans to third parties	14.2		14.2	12.1		12.1
Rent deposits	3.7		3.7	3.3		3.3
Other non-current financial assets		1.8	1.8		1.8	1.8
Total	**27.2**	**1.8**	**29.0**	**22.1**	**1.8**	**23.9**

The loans are primarily denominated in CAD, CHF, EUR, GBP, JPY and USD. Loans to third parties consist mainly of loans to customers. As of March 31, 2019, the respective repayment periods vary between one and nine years and the interest rates vary generally between 1% and 5%.

Other non-current financial assets mainly consist of certain minority interests in patent and software development companies specific to the hearing aid industry.

Accounting policies

Financial assets are classified into the following three categories:

- *Financial assets at amortized cost*
- *Financial assets at fair value through profit or loss (FVPL)*
- *Financial assets at fair value through other comprehensive income (FVOCI).*

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded either in the income statement or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model changes for managing those assets.

At initial recognition, the Group measures a financial asset at its fair value. In the case of financial assets at amortized cost and FVOCI the fair value includes transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Financial assets at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the income statement.

Financial assets at fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the income statement in the period in which it arises.

Financial assets at fair value through other comprehensive income (FVOCI) and equity instruments

The Group currently holds no financial assets at fair value through other comprehensive income (FVOCI) and no has not elected to account for equity instruments in this category.

Previous accounting policies for financial assets

In the prior year, financial assets were classified and measured based on the IAS 39 requirements. The Group reviewed its financial assets as of March 31, 2018 considering the new measurement categories provided under IFRS 9. Other financial assets classified as "Loans and receivables" are now classified as "Financial assets at amortized cost".

4.5 Financial liabilities

In connection with the financing of the acquisition of AudioNova in the 2016/17 financial year, on October 11, 2016 the Group issued bonds in three tranches with different coupons and terms:

- A two year variable rate bond (floating rate note) with a nominal value of CHF 150 million (ISIN CH0340912135) issued at 100.40% with interest at 3-month CHF Libor plus 50 bps p.a. paid quarterly. The loan paid an interest between 0.00% p.a. (floor) and 0.05% p.a. (cap) and was repaid on October 11, 2018.
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15% with a 0.00% interest rate and maturity on October 11, 2019 (disclosed as current financial liabilities).
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021 (disclosed as non-current financial liabilities). Interests will be paid on an annual basis.

Current financial liabilities

CHF million			**31.3.2019**			**31.3.2018**
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Bank debt	0.3		0.3	0.0		0.0
Bond	250.0		250.0	150.1		150.1
Deferred payments and contingent considerations	0.5	5.5	6.0	0.1	9.5	9.6
Other current financial liabilities		0.1	0.1		1.9	1.9
Total	**250.7**	**5.6**	**256.4**	**150.1**	**11.5**	**161.6**
Unused borrowing facilities			36.2			187.2

Non-current financial liabilities

CHF million			**31.3.2019**			**31.3.2018**
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Bank debt	0.0		0.0	0.1		0.1
Bonds	359.5		359.5	609.2		609.2
Deferred payments and contingent considerations	7.4	1.4	8.8	3.2	4.4	7.6
Other non-current financial liabilities	0.2	4.1	4.2	0.2	2.0	2.2
Total	**367.1**	**5.5**	**372.6**	**612.7**	**6.4**	**619.1**

Besides the bond, financial liabilities mainly consist of earn-out agreements related to contingent considerations and deferred payments from acquisition.

Other non-current financial liabilities mainly consist of amounts due in relation to the share appreciation rights (SARs) (refer to Note 7.4).

Analysis of non-current financial liabilities by currency

Analysis by currency CHF million				**31.3.2019**				**31.3.2018**
	Bank debt	Bonds	Other non-current financial liabilities	Total	Bank debt	Bonds	Other non-current financial liabilities	Total
CHF		359.5	10.0	369.5		609.2	8.7	617.9
USD			0.5	0.5			0.0	0.0
EUR			0.1	0.1			0.1	0.1
Other	0.0		2.5	2.6	0.1		1.0	1.0
Total	**0.0**	**359.5**	**13.1**	**372.6**	**0.1**	**609.2**	**9.8**	**619.1**

Reconciliation of financial liabilities arising from financing activities

Reconciliation of financial liabilities CHF million					**2018/19**
	Bank debt	Bonds	Deferred payments and contingent considerations	Other financial liabilities	Total
Balance April 1	0.1	759.3	17.2	4.1	780.7
Repayments	0.2	(150.0)	(1.7)	0.9	(150.6)
Exchange differences	(0.0)		0.2	0.0	0.2
Other		0.2	(0.9)	(0.7)	(1.4)
Balance March 31	**0.3**	**609.5**	**14.8**	**4.3**	**628.9**
thereof short-term	0.3	250.0	6.0	0.1	256.4
thereof long-term	0.0	359.5	8.8	4.2	372.6

Reconciliation of financial liabilities CHF million					**2017/18**
	Bank debt	Bonds	Deferred payments and contingent considerations	Other financial liabilities	Total
Balance April 1	0.1	759.2	18.3	2.7	780.3
Repayments	(0.0)		(0.1)	(0.0)	(0.1)
Exchange differences	0.0		0.2	(0.4)	(0.3)
Other		0.1	(1.2)	1.9	0.8
Balance March 31	**0.1**	**759.3**	**17.2**	**4.1**	**780.7**
thereof short-term	0.0	150.1	9.6	1.9	161.6
thereof long-term	0.1	609.2	7.6	2.2	619.1

Accounting policies

Financial liabilities are classified as measured at amortized cost or at fair value through profit or loss (FVPL). A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the income statement. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the income statement.

Derivative financial instruments are initially recognized in the balance sheet at fair value and are remeasured as to their current fair value at the end of each subsequent reporting period.

Bonds are initially measured at fair value and direct transaction costs included. In subsequent accounting periods, they are remeasured at amortized costs applying the effective interest method.

4.6 Movement in share capital

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2017	65,422,887	(100,190)	65,322,697
Capital decrease – share buyback program	(92,000)	92,000	
Purchase of treasury shares		(318,675)	(318,675)
Sale/transfer of treasury shares		323,243	323,243
Balance March 31, 2018	**65,330,887**	**(3,622)**	**65,327,265**
Purchase of treasury shares		(368,000)	(368,000)
Sale/transfer of treasury shares		338,048	338,048
Purchase of shares intended to be cancelled[2]		(932,750)	(932,750)
Balance March 31, 2019	**65,330,887**	**(966,324)**	**64,364,563**

Nominal value of share capital CHF million	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2019	**3.3**	**(0.0)**	**3.2**

Each share has a nominal value of CHF 0.05.

1) Treasury shares are purchased on the open market and are not entitled to dividends.

2) Shares purchased by the Group as part of the share buyback program.

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a new share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The shares will be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. The new program started in October 2018 and will run up to 36 months. As of March 31, 2019 932,750 shares were purchased as part of the share buyback program.

At the Annual General Shareholder's Meeting on July 7, 2005, the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). Consistent with the prior year, 5,322,133 shares remain unissued as of March 31, 2019. These shares are reserved for long-term incentive plans (2,021,013 shares) as well as for initiatives to increase the company's financial flexibility (3,301,120 shares).

Accounting policies

Ordinary shares are classified as equity. Dividends on ordinary shares are recorded in equity in the period in which they are approved by the parent companies' shareholders.

In case any of the Group companies purchase shares of the parent company, the consideration paid is recognized as treasury shares and presented as a deduction from equity. Any consideration received from the sale of own shares is recognized in equity.

4.7 Risk management

Group risk management

Risk management at Group level is an integral part of business practice and supports the strategic decision-making process. The assessment of risk is derived from both "top-down" and "bottom-up" and covers corporate, all business segments, and all consolidated Group companies. This approach allows for the Group to examine all types of risk exposures caused by internal and external impacts and events, from financial, operational processes, customer and products, management and staff. The risk exposures are managed by specific risk mitigating initiatives, frequent re-evaluations, communication, risk consolidation and prioritization.

The responsibility for the process of risk assessment and monitoring is allocated to the corporate risk function. The Management Board, in addition to Group companies and functional managers, supports the annual risk assessment and is responsible for the management of the risk mitigating initiatives. The Board of Directors discusses and analyzes the Group's risks at least once a year in the context of a strategy meeting.

Financial risk management

Due to Sonova Group's worldwide activities, the Group is exposed to a variety of financial risks such as market risks, credit risks and liquidity risks. Financial risk management aims to limit these risks and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses selected financial instruments for this purpose. They are exclusively used as hedging instruments for cash in- and outflows and not for speculative positions. The Group does not apply hedge accounting.

The fundamentals of Sonova Group's financial risk policy are periodically reviewed by the Audit Committee and carried out by the Group finance department. Group finance is responsible for implementing the policy and for ongoing financial risk management.

Market risk

Exchange rate risk

The Group operates globally and is therefore exposed to foreign currency fluctuations, mainly with respect to the US dollar and the Euro. As the Group uses Swiss francs as presentation currency and holds investments in different functional currencies, net assets are exposed to foreign currency translation risk. Additionally, a foreign currency transaction risk exists in relation to future commercial transactions, which are denominated in a currency other than the functional currency.

To minimize foreign currency exchange risks, forward currency contracts are entered into. The Group hedges its net foreign currency exposure based on future expected cash in- and outflows. The hedges have a duration of between 1 and 6 months. No hedge accounting has been applied to these hedges.

Positive replacement values from hedges, which do not qualify for hedge accounting, are recorded as financial assets at fair value through profit or loss whereas negative replacement values are recorded as financial liabilities at fair value through profit or loss.

As of March 31, 2019, the Group engaged in forward currency contracts amounting to CHF 271.4 million (previous year CHF 329.4 million). The open contracts on March 31, 2019 as well as on March 31, 2018 were all due within one year.

Notional amount of forward contracts CHF million		**31.3.2019**		**31.3.2018**
	Total	Fair value	Total	Fair value
Positive replacement values	132.2	0.3	61.0	0.5
Negative replacement values	139.2	(0.1)	268.3	(1.7)
Total	**271.4**	**0.2**	**329.4**	**(1.2)**

Foreign currency sensitivity analysis

CHF million	**2018/19**	**2017/18**	**2018/19**	**2017/18**
	Impact on income after taxes[1]		Impact on equity	
Change in USD/CHF +5%	4.4	4.3	13.8	14.3
Change in USD/CHF –5%	(4.4)	(4.3)	(13.8)	(14.3)
Change in EUR/CHF +5%	3.6	5.2	16.1	19.6
Change in EUR/CHF –5%	(3.6)	(5.2)	(16.1)	(19.6)

1) Excluding the impact of forward currency contracts.

Interest rate risk

The Group has only limited exposure to interest rate changes. The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the 2018/19 financial year of CHF 402 million (previous year CHF 372 million). On liabilities the most significant risk related to the two year variable rate bond (see Note 4.5), which was repaid on October 11, 2018. If interest rates during the 2018/19 financial year had been 1% higher, the positive impact on income before taxes would have been CHF 3.4 million. If interest rates had been 1% lower, the income before taxes would have been negatively impacted by CHF 2.9 million.

Other market risks

Risk of price changes of raw materials or components used for production is limited. A change in those prices would not result in financial effects being above the Group's risk management tolerance level. Therefore, no sensitivity analysis has been conducted.

The Group aims to ensure cost effective sourcing, while at the same time managing the risk of supply shortages that could lead to a failure to deliver certain products at the quantities required. Wherever feasible, critical components are sourced from multiple suppliers in order mitigate this risk.

The relationship with suppliers is governed by Sonova's Group Supplier Principles (SGSP). We regularly audit and visit suppliers and inspect their management capabilities through employee interviews and on-site inspections. Suppliers have to follow all applicable laws and regulations, ensure a healthy and safe working environment and are prohibited from using child labor.

Through its multiple manufacturing sites around the globe, the Group maintains effective options to rebalance its production capacity between different facilities and to shift production where necessary to avoid delivery shortages and to adapt to potential changes of the operating or general environment.

Credit risk

Financial assets, which could expose the Group to a potential concentration in credit risk, are principally cash and bank balances, receivables from customers and loans.

Core banking relations are maintained with at least "BBB+" rated (S & P) financial institutions. As of March 31, 2019, the largest balance with a single counterparty amounted to 27% (previous year 24%) of total cash and cash equivalents.

The Group performs continuous credit checks on its receivables. Due to the customer diversity, there is no single credit limit for all customers, however, the Group assesses its customers taking into account their financial position, past experience, and other factors. Due to the fragmented customer base (no single customer balance is greater than 10% of total trade accounts receivable), the Group is not exposed to any significant concentration risk. The same applies to loans to third and related parties.

The Group does not expect any significant losses either from receivables or from other financial assets.

Impairment of financial assets

Impairment losses on financial assets are calculated based on the expected credit loss (ECL) model of IFRS 9. The Group's loss allowances on financial assets other than trade receivables are not material.

Accounting policies

The Group applies the IFRS 9 simplified approach for measuring expected credit losses (ECLs) for trade receivables, which uses a lifetime expected loss allowance for trade receivables at each reporting date. To measure ECLs, trade receivables are grouped based on regions and the days past due. ECLs are calculated separately for state and non-state customers considering historical credit loss experience as well as forward-looking factors. Data sources in determining ECLs include actual historical losses, credit default swaps, country specific risk ratings, development of the customer structure and change in market performance and trends.

The following table provides information about the exposure to credit risk and ECLs for trade receivables:

CHF million				31.3.2019	31.3.2018
State customers	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Net carrying amount**
Not overdue	0.4%	81.4	(0.3)	81.1	69.7
Overdue 1–90 days	0.7%	28.4	(0.2)	28.2	23.4
Overdue 91–180 days	6.7%	3.0	(0.2)	2.8	3.2
Overdue 181–360 days	9.1%	2.2	(0.2)	2.0	3.2
Overdue more than 360 days	86.5%	5.2	(4.5)	0.7	2.9
Total	**4.5%**	**120.2**	**(5.4)**	**114.8**	**102.3**

CHF million				31.3.2019	31.3.2018
Non-state customers	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Net carrying amount**
Not overdue	0.8%	314.2	(2.6)	311.6	254.2
Overdue 1–90 days	4.2%	77.9	(3.3)	74.6	74.8
Overdue 91–180 days	25.9%	13.5	(3.5)	10.0	9.9
Overdue 181–360 days	49.7%	14.9	(7.4)	7.5	6.9
Overdue more than 360 days	88.9%	19.0	(16.9)	2.1	1.4
Total	**7.7%**	**439.5**	**(33.7)**	**405.8**	**347.3**

The closing loss allowances for trade receivables as at March 31, 2018 (IAS 39) reconcile to the opening loss allowance on April 1, 2018 (IFRS 9) and the closing loss allowance as at March 31, 2019 as follows:

CHF million	2018/19	2017/18
Provision for doubtful receivables, April 1 (IAS 39)	**(31.9)**	**(26.1)**
Adjustment on initial application of IFRS 9	(5.1)	
Provision for doubtful receivables, April 1 (IFRS 9)	**(37.0)**	
Changes through business combinations	(0.2)	(0.0)
Utilization	2.2	9.7
Reversal	4.2	1.0
Additions	(8.9)	(16.4)
Disposal		0.1
Exchange differences	0.6	(0.2)
Provision for doubtful receivables, March 31	**(39.0)**	**(31.9)**

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables and subsequent recoveries are included in general and administration costs.

Previous accounting policy for impairment of trade receivables
In the prior year, a provision for doubtful accounts was recorded when there was objective evidence that the Group will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision was the difference between the carrying amount and the recoverable amount with the latter being the present value of expected cash flows.

Liquidity risk

Group finance is responsible for centrally managing the net cash/debt position and to ensure that the Group's obligations can be settled on time. The Group aims to grow further and wants to remain flexible in making time-sensitive investment decisions. This overall objective is included in the asset allocation strategy. A rolling forecast based on the expected cash flows is conducted and updated regularly to monitor and control liquidity.

Visibility over the lion's share of bank accounts is provided by central treasury organization. Cash pools are automated and daily SWIFT balance tracking is applied where feasible.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2019 and 2018:

CHF million					31.3.2019
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Bonds		250.0			250.0
Other current financial liabilities	3.3	3.1			6.4
Trade payables and other short-term liabilities	240.3	158.5			398.8
Total current financial liabilities	**243.6**	**411.6**			**655.2**
Bonds			359.5		359.5
Other non-current financial liabilities			12.6	0.5	13.1
Total non-current financial liabilities			**372.1**	**0.5**	**372.6**
Total financial liabilities	**243.6**	**411.6**	**372.1**	**0.5**	**1,027.8**

CHF million					31.3.2018
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Bonds		150.1			150.1
Other current financial liabilities	3.9	7.6			11.5
Trade payables and other short-term liabilities	218.7	146.2			364.9
Total current financial liabilities	**222.6**	**303.9**			**526.5**
Bonds			609.2		609.2
Other non-current financial liabilities			9.8		9.8
Total non-current financial liabilities			**619.1**		**619.1**
Total financial liabilities	**222.6**	**303.9**	**619.1**		**1,145.6**

Capital risk management

It is the Group's policy to maintain a strong equity base and to secure a continuous "investment grade" rating. The Group's strong balance sheet and earnings tracking provides for additional debt capacity.

The company aims to return excess cash to shareholders as far as not required for organic and acquisition related growth, and amortization of debt.

4.8 Financial instruments

This note discloses the categorization of financial instruments measured at fair value based on the fair value hierarchy.

Accounting policies

Financial instruments measured at fair value are allocated to one of the following three hierarchical levels:

Level 1:
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

Level 2:
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques are based on observable market data, where applicable. If all significant inputs required to value an instrument are observable, the instrument is included in level 2.

Level 3:
If a significant amount of inputs is not based on observable market data, the instrument is included in level 3. For this level, other techniques, such as discounted cash flow analysis, are used to determine fair value.

During the reporting period, there were no reclassifications between the individual levels.

The following table summarizes the financial instruments of the Group and the valuation method for financial instruments at fair value through profit and loss.

CHF million						31.3.2019
	Notes	Carrying amount	Fair value[1]	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	374.8				
Other financial assets	4.4	37.8				
Trade receivables	3.1	520.6				
Other receivables	3.5	69.0				
Total		**1,002.2**				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	2.1	2.1			2.1
Total		**2.1**	**2.1**			**2.1**
Financial liabilities at amortized cost						
Bank debt	4.5	0.3				
Bond	4.5	609.5	613.3	613.3		
Deferred payments	4.5	7.9				
Other financial liabilities	4.5	0.2				
Trade payables		102.8				
Other short-term operating liabilities	3.7	296.0				
Total		**1,016.7**	**613.3**	**613.3**		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	6.9	6.9			6.9
Negative replacement value of forward foreign exchange contracts	4.5	0.1	0.1			0.1
Other financial liabilities	4.5	4.2	4.2			4.2
Total		**11.2**	**11.2**			**11.2**

[1] For financial assets and financial liabilities measured at amortized cost, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

CHF million						31.3.2018
	Notes	Carrying amount	Fair value[1]	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	552.1				
Other financial assets	4.4	25.9				
Trade receivables	3.1	449.5				
Other receivables	3.5	64.5				
Total		**1,092.1**				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	2.4	2.4	0.1		2.3
Total		**2.4**	**2.4**	**0.1**		**2.3**
Financial liabilities at amortized cost						
Bank debt	4.5	0.1				
Bond	4.5	759.3	762.9	762.9		
Deferred payments	4.5	3.2				
Other financial liabilities	4.5	0.2				
Trade payables		89.2				
Other short-term operating liabilities	3.7	275.7				
Total		**1,127.7**	**762.9**	**762.9**		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	14.0	14.0			14.0
Negative replacement value of forward foreign exchange contracts	4.5	1.7	1.7			1.7
Other financial liabilities	4.5	2.2	2.2			2.2
Total		**17.9**	**17.9**			**17.9**

[1] For financial assets and financial liabilities measured at amortized cost, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2019 and 2018:

Financial assets at fair value through profit or loss CHF million	2018/19	2017/18
Balance April 1	2.3	1.5
Additions/(disposals), net	0.5	0.8
Losses recognized in profit or loss	(0.7)	(0.1)
Balance March 31	**2.1**	**2.3**

Financial liabilities at fair value through profit or loss CHF million	2018/19	2017/18
Balance April 1	(17.9)	(20.6)
(Additions)/disposals, net	7.9	2.4
Losses recognized in profit or loss	(1.2)	0.3
Balance March 31	**(11.2)**	**(17.9)**

4.9 Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2019	31.3.2018	2018/19	2017/18
	Year-end rates		Average rates for the year	
AUD 1	0.71	0.73	0.72	0.75
BRL 1	0.26	0.29	0.26	0.30
CAD 1	0.74	0.74	0.75	0.76
CNY 1	0.15	0.15	0.15	0.15
EUR 1	1.12	1.18	1.15	1.14
GBP 1	1.30	1.35	1.30	1.29
JPY 100	0.90	0.90	0.89	0.88
USD 1	1.00	0.96	0.99	0.97

Accounting policies

The consolidated financial statements are expressed in Swiss francs (“CHF”), which is the Group’s presentation currency. The functional currency of each Group company is based on the local economic environment to which an entity is exposed, which is normally the local currency.

Transactions in foreign currencies are accounted for at the rates prevailing on the dates of the transactions. The resulting exchange differences are recorded in the local income statements of the Group companies and included in net income.

Monetary assets and liabilities of Group companies, which are denominated in foreign currencies are translated using year-end exchange rates. Exchange differences are recorded as an income or expense. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange differences arising on intercompany loans that are considered part of the net investment in a foreign entity are recorded in other comprehensive income in equity.

When translating foreign currency financial statements into Swiss francs, year-end exchange rates are applied to assets and liabilities, while average annual rates are applied to income statement accounts. Translation differences arising from this process are recorded in other comprehensive income in equity. On disposal of a Group company, the related cumulative translation adjustment is transferred from equity to the income statement.

5. Taxes

5.1 Taxes

CHF million	2018/19	2017/18
Current taxes	67.3	60.4
Deferred taxes	2.1	11.1
Total income taxes	**69.4**	**71.5**
Reconciliation of tax expense		
Income before taxes	529.6	478.9
Group's expected average tax rate	13.5%	14.6%
Tax at expected average rate	**71.7**	**69.9**
+/– Effects of		
Expenses not subject to tax, net	5.6	4.0
Changes of unrecognized loss carryforwards/deferred tax assets	12.5	(0.0)
Local actual tax rate different to Group's expected average tax rate	(25.6)	(24.3)
Change in tax rates on deferred tax balances[1]	3.0	20.0
Prior year adjustments and other items, net	2.3	1.9
Total income taxes	**69.4**	**71.5**
Weighted average effective tax rate	13.1%	14.9%

[1] 2017/18 change mainly relates to a reduction for US corporate income tax rates.

The Group's expected average tax rate is the aggregate rate obtained by applying the expected tax rate for each individual jurisdiction to its respective result before taxes. The decrease in tax rate compared to the prior year mainly relates to the completion of the integration of AudioNova.

Deferred tax assets and (liabilities) CHF million			31.3.2019			31.3.2018
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	34.8	(2.8)	32.0	31.9	(3.8)	28.2
Property, plant & equipment	1.4	(8.6)	(7.2)	1.0	(8.1)	(7.1)
Intangible assets		(104.9)	(104.9)		(104.0)	(104.0)
Other assets and liabilities[1]	98.6	(55.0)	43.6	38.1	(34.4)	3.6
Tax loss carryforwards	42.1		42.1	52.6		52.6
Total tax assets (liabilities)	**176.9**	**(171.3)**	**5.6**	**123.6**	**(150.3)**	**(26.7)**
Offset of assets and liabilities	(32.7)	32.7		(9.0)	9.0	
Amounts in the balance sheet						
Deferred tax assets	144.2		144.2	114.6		114.6
Deferred tax liabilities		(138.6)	(138.6)		(141.3)	(141.3)
Total deferred taxes, net			**5.6**			**(26.7)**

[1] Deferred tax assets manly relate to provisions and contract liabilities, deferred tax liabilities mainly relate to provisions, contract assets and trade and other receivables.

Movement of deferred tax assets and (liabilities) CHF million						**2018/19**
	Inventories	Property, plant & equipment	Intangible assets	Other assets and liabilities	Tax loss carryforwards	Total
Balance April 1	28.2	(7.1)	(104.0)	3.6	52.6	(26.7)
Effect on initial application of IFRS 15 and IFRS 9				33.2		33.2
Changes through business combinations			(10.3)	0.6		(9.7)
Deferred taxes recognized in the income statement	1.3	(0.2)	3.1	4.8	(11.1)	(2.1)
Deferred taxes recognized in OCI[1]				2.3		2.3
Exchange differences	2.5	0.2	6.3	(1.0)	0.6	8.6
Balance March 31	**32.0**	**(7.2)**	**(104.9)**	**43.6**	**42.1**	**5.6**

1) Other comprehensive income.

Movement of deferred tax assets and (liabilities) CHF million						**2017/18**
	Inventories	Property, plant & equipment	Intangible assets	Other assets and liabilities	Tax loss carryforwards	Total
Balance April 1	25.1	(7.1)	(99.7)	10.2	64.7	(6.8)
Changes through business combinations			(1.9)	6.0		4.1
Deferred taxes recognized in the income statement	(2.5)	0.3	5.3	(1.7)	(12.5)	(11.1)
Deferred taxes recognized in OCI[1]				(2.1)		(2.1)
Exchange differences	5.6	(0.3)	(7.6)	(8.8)	0.4	(10.7)
Balance March 31	**28.2**	**(7.1)**	**(104.0)**	**3.6**	**52.6**	**(26.7)**

1) Other comprehensive income.

Deferred tax assets have been capitalized based on the projected future performance of the Group companies.

The gross values of unused tax loss carryforwards, which have not been capitalized as deferred tax assets, with their expiry dates are as follows:

CHF million	**31.3.2019**	**31.3.2018**
Within 1 year	29.0	46.0
Within 2–5 years	96.0	90.6
More than 5 years or without expiration	479.9	449.4
Total	**604.9**	**586.0**

Tax loss carryforwards, which have not been capitalized also include pre-acquisition tax losses with limitation of use and losses, which do not qualify for capitalization. The inherent uncertainty regarding the level and use of such tax losses, and changes in tax regulations and laws can impact the annual assessment of these unused tax loss carryforwards.

Accounting policies

Income taxes include current and deferred income taxes. The Group is subject to income taxes in numerous jurisdictions and significant judgment is required in determining the worldwide provision for income taxes. The multitude of transactions and calculations implies estimates and assumptions. The Group recognizes liabilities based on estimates of whether additional taxes will be due.

Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred tax is recorded on the valuation differences (temporary differences) between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences and tax losses can be offset. Deferred income tax liabilities are provided for on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Accounting judgements and estimates

The consolidated balance sheet includes deferred tax assets of CHF 144.2 million (previous year CHF 114.6 million) related to deductible differences and, in certain cases, tax loss carry forwards, provided that their utilization appears probable. The recoverable value is based on forecasts of the corresponding taxable Group company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets may need to be adjusted accordingly.

6. Changes in Group structure

6.1 Acquisitions/disposals of subsidiaries

In the financial year 2018/19, the Group acquired several small companies in Europe, Americas and Asia/Pacific. Furthermore, the Group divested several audiological care stores in the US region. All of these companies acquired/divested are in the business of producing and/or distributing and servicing hearing instruments. Due to the size of these transactions, they had no material impact on the financial statements. During the financial year 2017/18, the Group acquired several small companies in Europe, North America and Asia/Pacific.

All of the acquired companies are engaged in the business of selling hearing instruments and have been accounted for applying the acquisition method of accounting. Assets and liabilities resulting from the acquisitions are as follows:

CHF million	2018/19	2017/18
	Total	Total
Trade receivables	1.9	2.3
Other current assets	9.0	17.4
Property, plant & equipment	2.0	2.4
Intangible assets	22.4	26.7
Other non-current assets	0.7	0.6
Current liabilities	(10.7)	(14.6)
Non-current liabilities	(10.7)	(28.0)
Net assets	**14.7**	**6.8**
Goodwill	55.4	77.9
Purchase consideration	**70.1**	**84.7**
Fair value of previously held stake before the business combination	(2.4)	
Liabilities for contingent considerations and deferred payments[1]	(7.7)	(5.8)
Cash and cash equivalents acquired	(4.5)	(3.4)
Cash outflow for investments in associates, contingent considerations and deferred payments	8.6	7.0
Cash consideration for acquisitions, net of cash acquired	**64.1**	**82.5**
Settlement of pre-existing financing relationships	2.3	
Total consideration paid, net of cash acquired	**66.4**	**82.5**

[1] Contingent considerations and deferred payments (earn-out payments) are dependent on the future performance of the acquired companies as well as contractual conditions. The liability for contingent considerations and deferred payments is based on the latest estimate of the future performance.

The initial accounting for the acquisitions completed in the current financial year is provisional and the fair values assigned to the identifiable assets acquired and liabilities assumed are still subject to change.

The goodwill is attributed mainly to economies of scale and expected synergies such as favorable sales growth potential, increase in share of Sonova products within acquired distribution companies and cost reduction in administrative and corporate functions as well as to the labor force. Recognized goodwill is not expected to be deductible for income tax purposes.

In the 2018/19 and 2017/18 reporting period, recognized acquisition-related intangible assets mainly relate to customer relationships. For acquisition-related intangibles, the lifetimes assigned range between 10 and 20 years. On these intangibles, deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 0.5 million (prior year period CHF 0.5 million) have been expensed and are included in the line "General and administration".

April 1 to March 31, CHF million	2018/19	2017/18
	Total	Total
Contribution of acquired companies from date of acquisition		
Sales	10.6	17.7
Net income	2.9	1.7
Contribution, if the acquisitions occurred on April 1		
Sales	32.8	34.8
Net income	6.4	6.3

In the financial year 2018/19, the Group divested several audiological care stores in the US region. The total consideration amounting to CHF 1.5 million was settled in cash. The resulting net gain of those transactions of CHF 0.3 million has been recognized in the income statement and is included in "other income/(expense), net".

On March 30, 2018, Sonova Holding AG signed an agreement to divest Ear Professional International Corporation ("EPIC"), representing the Group's US insurance subcontracting business. Further in the 2017/18 reporting period, the Group divested two minor Group companies in the EMEA region. The total purchase price consideration for the divestments amounted to CHF 23.2 million. The carrying amount of the disposed net assets amounted to CHF 17.8 million including cash and cash equivalents of CHF 0.8 million. The net gain from these transactions of CHF 5.4 million has been recognized in the income statement and is included in "other income/(expense), net". These transactions have no material impact on the financial statements.

Accounting policies

Business combinations are accounted for using the acquisition method of accounting. The cost of a business combination is equal to the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Sonova Group, in exchange for control over the acquired company. Any difference between the cost of the business combination and the net fair value of the identifiable assets, liabilities, and contingent liabilities recognized is treated as goodwill. Goodwill is not amortized, but is assessed for impairment annually, or more frequently if events or changes in circumstances indicate that its value might be impaired (Refer to Note 3.4). Acquisition-related costs are expensed. For each business combination, the Group recognizes the non-controlling interests in the acquiree at fair value or at the non-controlling interests proportionate share in the recognized amounts of the acquiree's identifiable net assets.

If a business combination is achieved in stages (control obtained over an associate), the previously held equity interest in an associate is remeasured to its acquisition date fair value and any resulting gain or loss is recognized in "financial income/expenses" in profit or loss.

Accounting judgements and estimates

Business combinations

In the course of recognizing assets and liabilities from business combinations, management judgments might be required for the following areas:

- *Acquisition-related intangibles resulting from technology, customer relationships, client lists, or brand names.*
- *Contingent consideration arrangements.*

Cost of business combinations
A business combination agreement may provide for an adjustment to the cost of the combination contingent on future events. If the future events do not occur or the estimate needs to be revised, the cost of a business combination is revised accordingly, with a resulting change in the income statement. At the end of the 2018/19 financial year, such liabilities contingent on future events amount to CHF 6.9 million (previous year CHF 14.0 million) and are disclosed under other financial liabilities (Note 4.5).

6.2 Investments in associates/joint ventures

The Group's share in the results as well as in assets and liabilities of associates/joint ventures, all unlisted enterprises, is as follows:

CHF million	**2018/19**	**2017/18**
Current assets	1.2	1.6
Non-current assets	1.5	2.2
Total assets	**2.6**	**3.8**
Current liabilities	(0.4)	(0.8)
Non-current liabilities	(0.0)	(0.0)
Total liabilities	**(0.4)**	**(0.8)**
Net assets	**2.2**	**2.9**
Income for the year	5.2	5.8
Expenses for the year	(3.1)	(2.6)
Profit for the year	**2.1**	**3.2**
Net book value at year-end	12.8	13.7
Share of gain/(loss) recognized by the Group	2.1	3.2

In the financial year 2018/19, the Group acquired additional shares in one previously held equity investment, resulting in a change of control (step up acquisition). Since the change of control, this company is fully consolidated. The net book value at the time of gaining control over this entity amounted to CHF 1.3 million.

In the 2017/18 financial year, the Group acquired one associate and disposed a majority share (51%) of a previously fully consolidated company (resulting in a minority share and a reclassification to associates). Both transactions were for companies which are in the business of selling hearing instruments but had no significant effect on the financial statements for the Group. The net consideration for the two transactions above amounted to CHF 1.2 million.

Sales to associates/joint ventures in the 2018/19 financial year amounted to CHF 9.1 million (previous year CHF 10.0 million). At March 31, 2019, trade receivables towards associates/ joint ventures amounted to CHF 2.2 million (previous year CHF 2.3 million).

At the end of the 2018/19 and 2017/18 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 12.8 million (previous year CHF 13.7 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2018.

Accounting policies

Investments in associates and joint ventures are accounted for using the equity method of accounting. Investments in associates are entities in which Sonova has a significant influence but does not exercise control (usually 20%–50% of voting rights). Joint ventures are joint arrangements whereby two or more parties have rights to the net assets of the arrangement.

Under the equity method, the investment in an associate/joint venture is recognized initially at cost (including goodwill on acquisition) and the carrying amount is increased or decreased to recognize Sonova's share of profit or loss of the associate/joint venture after the acquisition date. When the Group's share of losses in an associate/joint venture equals or exceeds its interest in the associate/joint venture, no further losses are recognized, unless there is a legal or constructive obligation. In order to apply the equity method the most recent available financial statements of an associate/joint venture are used, however, due to practicability reasons the reporting dates might vary up to three months from the Group's reporting date.

7. Other disclosures

7.1 Number of employees

On March 31, 2019, the Sonova Group employed the full time equivalent of 14,740 people (previous year 14,242). They were engaged in the following regions and activities:

By region	31.3.2019	31.3.2018
Switzerland	1,224	1,219
EMEA (excl. Switzerland)	6,748	6,471
Americas	3,443	3,539
Asia/Pacific	3,325	3,013
Total	**14,740**	**14,242**
By activity		
Research and development	778	774
Operations	4,665	4,391
Sales and marketing, general and administration	9,297	9,077
Total	**14,740**	**14,242**

The average number of employees (full time equivalents) of the Sonova Group for the year was 14,418 (previous year 14,073). Total personnel expenses for the 2018/19 financial year amounted to CHF 1,010.9 million (previous year CHF 939.5 million).

7.2 Transactions and relations with members of the Management Board and the Board of Directors

CHF million	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	Management Board		Board of Directors		Total	
Short-term employee benefits	7.8	9.3	1.8	1.6	9.6	10.9
Post-employment benefits	0.7	0.9			0.7	0.9
Share based payments	4.5	6.6	2.0	1.8	6.5	8.5
Total	**13.1**	**16.8**	**3.8**	**3.4**	**16.8**	**20.2**

The total compensation to the Management Board for the 2018/19 reporting period, as shown above, relates to 9 members of the Management Board. The total compensation to the Management Board for the 2017/18 reporting period, as shown above, related to 10 members (including two members of the Management Board who joined in October 2017).

The total compensation to the Board of Directors for the 2018/19 reporting period, as shown above, relates to nine current members (previous year eight members).

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 7.3.

Further information in accordance with Swiss law relating to remuneration and ownership of shares and options of the Board of Directors and the Management Board can be found in the compensation report and in the Note 3.6 of the financial statements of Sonova Holding AG.

7.3 Employee benefits

Defined benefit plans

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Canada, Germany and Israel. These plans are both funded and unfunded and governed by local regulations using independent actuarial valuations according to IAS 19. Sonova Group's major defined benefit plan is located in Switzerland, which in total accounts for CHF 405.5 million or 99.6% (previous year CHF 369.1 million or 99.6%) of Sonova's defined benefit obligation.

Pension plans in Switzerland

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Sonova's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions as defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is, in essence, contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements, although it has many of the characteristics of a defined contribution plan. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. In the previous year, to further reduce the financial risks of the pension fund, the foundation has decided that, above a set insured salary, the savings capital will be split into pension-accumulating and capital-accumulating savings capital. The pension-accumulating savings capital will generate a life-long retirement pension upon retirement. The capital-accumulating savings capital will generate a one-off capital payment upon retirement. In the previous year, the foundation decided to reduce the annuity rate applied to the individual accumulated retirement saving gradually over-time. After 5.6% that was applied for 2017/18, an annuity rate of 5.4% was applied for the financial year 2018/19.

As of March 31, 2019, 1,270 employees (previous year 1,254 employees) and 123 beneficiaries (previous year 119 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 13.7 years (previous year 13.4 years).

The results of all defined benefit plans are summarized below:

Amounts recognized in the balance sheet CHF million	**31.3.2019**	**31.3.2018**
Present value of funded obligations	(407.0)	(370.7)
Fair value of plan assets	383.2	365.6
Net present value of funded plans	**(23.8)**	**(5.1)**
Present value of unfunded obligations	(2.2)	(2.3)
Total liabilities, net	**(26.0)**	**(7.4)**
Amounts in the balance sheet:		
Retirement benefit obligation	(26.0)	(7.4)

Remeasurements recognized in equity CHF million	**2018/19**	**2017/18**
Balance April 1	15.0	30.0
Actuarial losses/(gains) from		
– changes in financial assumptions	15.9	(12.5)
– changes in experience adjustments	3.1	12.6
Return on plan assets excluding interest income	(2.0)	(15.0)
Balance March 31	**32.0**	**15.0**

Amounts recognized in the income statement CHF million	**2018/19**	**2017/18**
Current service cost[1)]	26.0	21.3
Participants' contributions	(11.4)	(11.0)
Net interest cost	0.1	0.2
Total employee benefit expenses[2)]	**14.7**	**10.5**

1) Current service cost contains the effect of a gradual reduction of the annuity rate. Current service cost for the 2017/18 financial year contains the effect of the pension plan change as described above.

2) The amount recognized in the consolidated income statement 2018/19 has been charged to:
– cost of sales CHF 2.7 million (previous year CHF 1.9 million);
– research and development CHF 4.9 million (previous year 3.5 million);
– sales and marketing CHF 3.0 million (previous year 2.1 million);
– general and administration CHF 4.0 million (previous year CHF 2.9 million);
– financial expenses CHF 0.1 million (previous year CHF 0.2 million).

Movement in the present value of the defined benefit obligations CHF million	**2018/19**	**2017/18**
Beginning of the year	373.0	356.5
Interest cost	3.2	2.2
Current service cost	26.0	21.3
Benefits paid, net	(12.0)	(7.2)
Actuarial loss on obligations	19.0	0.0
Exchange differences	(0.1)	0.2
Present value of obligations at end of period	**409.2**	**373.0**

Movement in the fair value of the plan assets CHF million	**2018/19**	**2017/18**
Beginning of the year	365.6	330.8
Interest income on plan asset	3.1	2.0
Employer's contributions paid	12.7	14.0
Participants' contributions	11.4	11.0
Benefits paid, net	(11.7)	(7.2)
Return on plan assets excluding interest income	2.0	15.0
Exchange differences	0.0	0.0
Fair value of plan assets at end of period	**383.2**	**365.6**

The plan assets consist of:	31.3.2019	31.3.2018
Cash	2.3%	4.5%
Domestic bonds	16.4%	17.9%
Foreign bonds	10.0%	7.6%
Domestic equities	13.3%	12.9%
Foreign equities	31.2%	31.9%
Real estates	15.0%	14.3%
Alternative investments	11.8%	10.9%

All of the plan assets have quoted market prices. The actual return on plan assets amounted to CHF 5.1 million (previous year CHF 17.1 million). The expected employer's contributions to be paid in the 2019/20 financial year amount to CHF 13.0 million.

Principal actuarial assumptions (weighted average)	2018/19	2017/18
Discount rate	0.55%	0.85%
Future salary increases	1.00%	1.00%
Future pension increases	0%	0%
Fluctuation rate	10%	10%
Demography	BVG 2015GT	BVG 2015GT

The following sensitivity analysis shows how the present value of the benefit obligation for the Swiss retirement benefit plan would change if one of the principal actuarial assumptions was changed. For the analysis, changes in the assumptions were considered separately and no interdependencies were taken into account.

Sensitivity analysis – impact on defined benefit obligation CHF million	31.3.2019	31.3.2018
Discount rate		
Discount rate +0.25%	(12.9)	(11.4)
Discount rate –0.25%	14.6	12.9
Salary growth		
Salary growth +0.25%	0.7	0.7
Salary growth –0.25%	(0.7)	(0.6)
Pension growth		
Pension growth +0.5%	14.8	26.4
Pension growth –0.5%	(14.8)	(26.4)
Fluctuation rate		
Fluctuation rate +5%	(14.9)	(11.3)
Fluctuation rate –5%	25.4	19.4

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounted to CHF 21.4 million in the year ended March 31, 2019 (previous year CHF 19.1 million) and are recognized directly in the income statement.

Accounting policies

Most employees are covered by post-employment plans sponsored by corresponding Group companies in the Sonova Group. Such plans are mainly defined contribution plans (future benefits are determined by reference to the amount of contributions paid) and are generally administered by autonomous pension funds or independent insurance companies. These pension plans are financed through employer and employee contributions. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

The Group also has several defined benefit pension plans, both funded and unfunded. Accounting and reporting of these plans are based on annual actuarial valuations. Defined benefit obligations and service costs are assessed using the projected unit credit method, with the cost of providing pensions charged to the income statement so as to spread the regular cost over the service lives of employees participating in these plans. The pension obligation is measured as the present value of the estimated future outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability. Service costs from defined benefit plans are charged to the appropriate income statement heading within the operating results.

A single net interest component is calculated by applying the discount rate to the net defined benefit asset or liability. The net interest component is recognized in the income statement in the financial result.

Actuarial gains and losses, resulting from changes in actuarial assumptions and differences between assumptions and actual experiences, are recognized in the period in which they occur in "Other comprehensive income" in equity.

Accounting judgements and estimates

The Sonova Group has various employee benefit plans. Most of its salaried employees are covered by these plans, of which some are defined benefit plans. The present value of the defined benefit obligations at the end of the 2018/19 financial period amounts to CHF 409.2 million (previous year CHF 373.0 million). This includes CHF 405.5 million (previous year CHF 369.1 million) from the Swiss pension plan. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, and future wage as well as pension trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. In the medium term, such deviations could have an impact on the equity.

7.4 Equity plans

Equity plans are offered annually to the members of the Board of Directors (BoD), to the members of the Management Board (MB) as well as to other management and senior employees of the Group, entitling them to receive long-term incentives in the form of equity plans free of charge. Equity plans are settled either with Sonova Holding AG shares (equity-settled share-based payment) or for certain US employees with an equivalent amount in cash (cash-settled share-based payment). The amount granted varies depending on the degree of management responsibility held.

In the 2018/19 and 2017/18 financial years, Sonova granted restricted shares, restricted share units (RSUs), performance share units (PSUs), options, and for US employees, share appreciation rights (SARs). In 2018/19, grants made to the members of the Management Board under the Executive Equity Award Plan (EEAP) consist of options, PSUs as well as an additional one-time transition grant of RSUs. Options as well as PSUs granted to the Management Board in 2018/19 include a performance criterion.

For further details on the different instruments granted (especially in regards to performance criteria) to the members of the Management Board, please refer to the compensation report.

The following share-based payment costs have been recognized in the financial years:

CHF million	2018/19	2017/18
Equity-settled share-based payment costs	18.8	17.9
Cash-settled share-based payment costs	0.4	0.3
Total share-based payment costs	**19.2**	**18.2**

The following table shows the outstanding options and/or SARs, granted as part of the EEAP 2013 to 2019. All of the equity instruments listed below (except for the non-recurring performance options granted to the COO in 2017/18) vest in 4 equal tranches, annually over a period of 4 years. The non-recurring performance options granted to the COO vest on April 1, 2023, subject to the achievement of the performance criteria.

Summary of outstanding options and SARs granted until March 31, 2019:

Financial year granted	Instruments granted	First vesting date/ expiry date	Granted	Exercise price (CHF)	Outstanding	Average remaining life (years)	Exercisable
2012/13	Options/SARs	1.6.2014 31.1.2020	227,188	109.10	43,200	0.8	43,200
2013/14	Options/SARs[1]	1.6.2015 31.1.2021	242,673	124.60	48,851	1.8	48,851
2014/15	Options/SARs[2]	1.6.2016 31.1.2022	308,459	121.10	110,780	2.8	58,715
2015/16	Options/SARs[3]	1.6.2017 31.1.2023	298,520	124.20	155,190	3.8	48,802
2016/17	Options/SARs[4]	1.6.2018 31.1.2024	378,652	130.00	278,958	4.8	40,423
2017/18	Options[5]	1.4.2023 30.9.2027	47,415	147.85	47,415	8.5	
2017/18	Options/SARs[6]	1.6.2019 31.1.2028	341,943	147.85	326,735	8.8	
2018/19	Options/SARs[7]	1.6.2020 31.1.2029	249,760	182.40	249,760	9.8	
Total			**2,094,610**		**1,260,889**[8]	**6.5**	**239,991**[9]
Thereof:							
Equity-settled			1,858,971		1,147,865		217,568
Cash-settled			235,639		113,024		22,423

1) Including 107,567 performance options, granted to the CEO and MB members.
2) Including 135,223 performance options, granted to the CEO and MB members.
3) Including 126,206 performance options, granted to the CEO and MB members.
4) Including 147,948 performance options, granted to the CEO and MB members.
5) Non-recurring performance options, granted to the COO (now CEO).
6) Including 150,114 performance options, granted to the CEO and MB members.
7) Including 80,850 performance options, granted to the CEO and MB members.
8) Weighted average exercise price of outstanding options/SARs amounts to CHF 143.26
9) Weighted average exercise price for exercisable options/SARs amounts to CHF 121.78.

The fair value of options and/or SARs is calculated at the grant date by using an "Enhanced American Pricing Model". The expected volatility is based on historical measures. The main valuation assumptions used for the options and/or SARs granted in the current and in the previous financial year are as follows:

Assumptions for valuation at grant date	**EEAP 2019 Options/SARs**	**EEAP 2018 Options/SARs**	**EEAP 2018 Performance options COO**
Valuation date	1.2.2019	1.2.2018	1.2.2018
Expiry date	31.1.2029	31.1.2028	30.9.2027
Share price on grant date	CHF 182.40	CHF 147.85	CHF 147.85
Exercise price	CHF 182.40	CHF 147.85	CHF 147.85
Volatility	21.0%	20.1%	20.1%
Expected dividend yield	1.8%	1.9%	1.9%
Weighted risk free interest rate	(0.2%)	0.2%	0.3%
Weighted average fair value of options/SARs issued	**26.12**	**20.77**	**21.09**

Options

The exercise price of options is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. The fair value of the options granted is estimated at grant date and recorded as an expense over the corresponding vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely ROCE targets achievements for performance options granted to the CEO and the other members of the MB) to ensure that only a charge for vested amounts occur. Options may be exercised after the vesting date, until their expiry date. If options are exercised, one share per option from the conditional share capital is issued, or treasury shares are used for fulfillment.

Changes in outstanding options:		**2018/19**		**2017/18**
	Number of options	Weighted average exercise price (CHF)	Number of options	Weighted average exercise price (CHF)
Outstanding options at April 1	1,197,443	130.87	1,123,708	122.03
Granted[1]	215,382	182.40	357,319	147.85
Exercised/sold[2]	(232,189)	119.59	(211,026)	114.36
Forfeited	(32,771)	133.06	(72,558)	125.60
Outstanding options at March 31	**1,147,865**	**142.76**	**1,197,443**	**130.87**
Exercisable at March 31	**217,568**	**121.64**	**227,885**	**115.77**

1) 2018/19 includes 80,850 performance options (previous year 150,114 performance options), granted to the CEO and MB members. In previous year, in addition, 47,415 non-recurring performance options were granted to the then COO (now CEO).

2) The total consideration from options exercised amounted to CHF 27.9 million (previous year CHF 24.1 million). The weighted average share price of the options exercised during the year 2018/19 was CHF 176.49 (previous year CHF 159.16).

Share appreciation rights (SARs)

The exercise price of SARs is generally equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. Upon exercise of SARs, an employee shall be paid, an amount in cash equal to the number of shares for which the employee exercised SARs, multiplied by any surplus, of the per share market price at the date of exercise versus the per share exercise price (determined at the date of grant of SARs). The initial fair value of the SARs is in line with the valuation of the options of the respective period and recorded as an expense over the corresponding vesting period. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The SARs may be sold after the vesting date, until they expire.

Changes in outstanding SARs:		**2018/19**		**2017/18**
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding SARs at April 1	102,369	132.90	102,364	125.00
Granted	34,378	182.40	32,039	147.85
Exercised/sold	(8,522)	124.84	(11,957)	117.19
Forfeited	(15,201)	135.08	(20,077)	125.84
Outstanding SARs at March 31[1)]	**113,024**	**148.27**	**102,369**	**132.90**
Exercisable at March 31[2)]	**22,423**	**123.17**	**14,042**	**119.84**

1) The carrying amount of the liability relating to the SARs at March 31, 2019 is CHF 4.0 million (previous year CHF 1.1 million).
2) The intrinsic value of the SARs exercisable at March 31, 2019 amounts to CHF 1.7 million (previous year CHF 0.4 million).

Performance share units (PSUs)/Restricted share units (RSUs)/Restricted shares

Under the EEAP grants 2013 to 2019, entitled employees have been granted RSUs. The value of an RSU is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to one share per RSU after the vesting period. In the case of RSUs granted to the CEO (2014 to 2018) and the other members of the MB (EEAP 2014 to 2017 and 2019), vesting of these shares is dependent on the fulfillment of the performance criteria which remains the achievement of a pre-defined minimum return on capital employed (ROCE) target. In 2019, as well as in the previous year, grants made to the members of the Management Board under the EEAP consist of PSUs (in previous year CEO received RSUs). The PSUs are measured on relative TSR (rTSR) against the constituents of a recognized index. The fair value of a PSU at grant date was based on a “Monte-Carlo valuation”. PSUs entitle the holder up to two shares per PSU, subject to the achievement of the performance criterion.

In addition to the PSUs granted in respect to the EEAP 2019, restricted shares have been granted to the Chairman of the Board of Directors as well as to the other members of the Board of Directors. These shares are entitled to dividends and are restricted for a period of 64 months (Chairman), respectively 52 months (other members of the Board of Directors).

Upon vesting of the PSUs/RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used.

The cost of the PSUs/RSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely achievements of the rTSR targets for performance of PSUs and ROCE targets for performance of RSUs granted to CEO and the other members of the MB) to ensure that only vested amounts are expensed. The costs for the restricted shares granted to the members of the Board of Directors have been fully expensed in the 2018/19 financial year as these shares have no vesting period.

Changes in outstanding PSUs/RSUs/Restricted shares:	**2018/19**	**2017/18**
	Number of PSUs/RSUs/ restricted shares	Number of PSUs/RSUs/ restricted shares
PSUs/RSUs/Restricted shares at April 1	435,506	457,669
Granted[1)]	102,162	126,931
Released	(109,800)	(115,014)
Forfeited	(27,981)	(34,080)
PSUs/RSUs/Restricted Shares at March 31	**399,887**	**435,506**

1) 2018/19 includes 7,876 PSUs, granted to the MB members. In the previous year, 18,001 PSUs were granted to the MB members and 2,800 RSU's to the CEO.

Accounting policies

The Board of Directors of Sonova Holding AG, the Management Board, and certain management and senior employees of other Group companies participate in equity compensation plans. The fair value of all equity compensation awards granted to employees is determined at the grant date and recorded as an expense over the vesting period. The expense for equity compensation awards is charged to the appropriate income statement heading within the operating result and an equivalent increase in equity (for equity-settled compensation) or financial liability (for cash-settled compensation) is recorded. In the case of cash-settled compensation, until the liability is settled, it is revalued at each reporting date, recognizing changes in the fair value in the income statement.

7.5 Events after the balance sheet date

There have been no material events after the balance sheet date.

7.6 List of significant companies

Company name	Activity	Domicile (country)	Share/paid-in capital[1] Local currency 1,000		Shares held
Switzerland					
Sonova Holding AG	A	Stäfa	CHF	3,267	
Sonova AG	A, B, C, D	Stäfa	CHF	2,500	100%
Advanced Bionics AG	A, B	Stäfa	CHF	4,350	100%
Sonova Retail Holding AG	A	Zug	CHF	1,000	100%
EMEA (excluding Switzerland)					
Sonova Audiological Care Austria GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Sonova Retail Belgium NV	B	Groot-Bijgaarden (BE)	EUR	3,686	100%
Sonova Deutschland GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100%
Vitakustik GmbH	B	Dortmund (DE)	EUR	500	100%
Hörgeräte ISMA Komplementär GmbH	B	Dortmund (DE)	EUR	120	100%
Sonova Retail Deutschland GmbH	B	Dortmund (DE)	EUR	1,000	100%
Sonova Retail Denmark ApS	B	Klampenborg (DK)	DKK	1,581	100%
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Sonova Audiological Care France SAS	B	Cahors (FR)	EUR	28,800	100%
Sonova France S.A.S.	B	Bron-Lyon (FR)	EUR	1,000	100%
Sonova Italia Srl	B	Milan (IT)	EUR	1,040	100%
AudioNova Italia	B	Milan (IT)	EUR	1,166	100%
Sonova Audiological Care Nederland B.V.	B	Dortrecht (NL)	EUR	19	100%
Sonova Audiological Care Polska Sp.z.o.o.	B	Lodz (PL)	PLN	678	100%
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0 [2]	51%
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100%
Sonova Service Center UK Limited	C	Warrington (UK)	GBP	3,150	100%

Activities:

A Holding/Finance: The entity is a holding or finance company.

B Sales: The entity performs sales and marketing activities.

C Production: This entity performs manufacturing for the Group.

D Research: This entity performs research and development activities for the Group.

1) Share/paid-in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.

2) GBP 133

Company name	Activity	Domicile (country)	Share/paid-in capital[1] Local currency 1,000			Shares held
Americas						
Sonova do Brasil Produtos Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	67,179		100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0	2)	100%
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0	2)	100%
Connect Hearing Inc.	B	Naperville (US)	USD	0	3)	100%
Sonova USA, Inc.	B	Plymouth (US)	USD	46,608		100%
Advanced Bionics Corp.	A	Valencia (US)	USD	1		100%
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	0	2)	100%
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD	0	2)	100%
Development Finance Inc.	A	Wilmington (US)	USD	0	4)	100%
Asia/Pacific						
Hearing Retail Group Pty. Ltd.	B	McMahons Point (AU)	AUD	58,000		100%
Sonova Australia Pty Ltd	B	Baulkham Hills (AU)	AUD	10,475		100%
Sonova (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041		100%
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249		100%
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000		100%
Triton Hearing Ltd.	B	Auckland (NZ)	NZD	15,450,000		100%
Sonova Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000		100%

Activities:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities.
C Production: This entity performs manufacturing for the Group.
D Research: This entity performs research and development activities for the Group.
1) Share/paid-in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
2) Without par value
3) USD 1
4) USD 10

7.7 Other accounting policies

Investments in subsidiaries

Investments in subsidiaries are fully consolidated. These are entities over which Sonova Holding AG directly or indirectly exercises control. Control exists when the Group is exposed, or has rights, to variable returns from its relationship with an entity and has the power to affect those returns. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can clearly demonstrate that such ownership does not constitute control. For the consolidated entities, 100% of assets, liabilities, income, and expenses are included. Non-controlling interests in equity and net income or loss are shown separately in the balance sheet and income statement. Changes in the ownership interest of a subsidiary that do not result in a loss of control will be accounted for as an equity transaction. Hence, neither goodwill nor any gains or losses will result.

Group Companies acquired during the year are included in the consolidation from the date on which control over the company transferred to the Group. Group companies divested during the year are excluded from the consolidation as of the date the Group ceased to have control over the company. Intercompany balances and transactions (including unrealized profit on intercompany inventories) are eliminated in full.

Related parties

A party is related to an entity if the party directly or indirectly controls, is controlled by, or is under common control with the entity, has an interest in the entity that gives it significant influence over the entity, has joint control over the entity or is an associate or a joint venture of the entity. In addition, members of the Board of Directors and the Management Board or close members of their families are also considered related parties as well as post-employment plan organizations (pension funds) for the benefit of Sonova employees. No related party exercises control over the Group.

7.8 Effect of new accounting standards

IFRS 15 “Revenue from Contracts with Customers”

The standard combines, enhances and replaces specific guidance on recognizing revenue with a new single standard based on a five step approach. The core principle of IFRS 15 is that revenue is recognized at an amount that reflects the consideration that the company expects to be entitled to in exchange for transferring goods or services. Under IFRS 15, an entity recognizes revenue when a performance obligation is satisfied.

The primary impact for the Group is on the timing of revenue recognition for the performance obligations related to extended warranties, loss and damage, battery plans and on additional revenue related disclosures.

The Group has adopted IFRS 15 using the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The following table summarizes the impact, net of tax, of transition to IFRS 15 on retained earnings and non-controlling interests as of April 1, 2018, including any changes made with respect to the amount stated in the interim consolidated financial statements (CHF 126.4 million).

in CHF million	**Impact of adopting IFRS 15 at April 1, 2018**	
	Retained earnings	Non-controlling interests
Net impact of recognition of contract liabilities	(196.5)	(0.3)
Recognition of contract assets	8.9	
Net impact of decrease in provisions	28.9	0.1
Deferred taxes	32.4	
Net impact on retained earnings and on non-controlling interests at April 1, 2018	**(126.4)**	**(0.1)**

Effect of change in accounting policies

Under IAS 18, sales of products were recognized when the significant risk and rewards of the ownership were transferred to the buyer, mainly upon delivery. In addition, revenue from the sale of service was recognized when the service was provided to the customer and when there were no continuing unfulfilled service obligations. The main change with IFRS 15 is that at contract inception, the transaction price is allocated to each performance obligation in a contract on the basis of the relative stand-alone selling price. Revenue for services is predominantly recognized on a straight-line basis over the service period.

As a result of applying IFRS 15, a higher portion of revenue is allocated to the Group's services and therefore, more revenue is deferred. The impact of these changes at the transition date of April 1, 2018 is a reclassification from deferred income (included in other operating liabilities) to contract liabilities for services that were already deferred under the old standard. For services that were previously not deferred, contract liabilities were recognized with the corresponding transition effect recognized in equity. In addition, the Group recognized contract assets (presented in other operating assets) that relate to reinsurance of loss and damage services. The transition further resulted in a decrease of provisions for warranty due to the methodology change from providing for future costs as opposed to deferral of revenue. A description of the Group's goods and services and accounting policies in regards to revenue recognition under IFRS 15 are disclosed in Note 2.3.

For products subject to a right of return, the Group previously recognized a return provision, which was measured on a net basis at the margin on the sale. Under IFRS 15, a return provision for the expected refunds to customers is recognized as an adjustment to revenue, measured by the sales price of the products. In addition, an asset for the right to recover products is recognized measured by reference to the carrying amount, which is presented as part of other current operating assets. The transition resulted in an increase in the right to recover products (presented in other operating assets) and an increase in return provision (presented in provisions for warranty and returns) with no net transition effect in equity.

The adoption of the new standard did not result in a material impact on the Group's consolidated income statement for the financial year ended March 31, 2019, as the deferral and release of revenue is largely offsetting. For the financial year 2018/19, the adoption had a negative impact of CHF 1.1 million on the EBITA result.

Impact on the consolidated balance sheet

The following table summarizes the impact of IFRS 15 on the Group's consolidated balance sheets as at April 1, 2018 and March 31, 2019 for each of the line items affected. Line items that were not affected by the changes have not been included. As a result, the sub-total and totals disclosed cannot be recalculated from the numbers provided.

Assets CHF million			**31.3.2019**			**1.4.2018**
	As reported with IFRS 15	IFRS 15 effect	Without IFRS 15	With IFRS 15	IFRS 15 effect	Without IFRS 15
Other current operating assets	114.3	(11.4)	102.9	100.8	(10.2)	90.6
Total current assets	**1,311.9**	**(11.4)**	**1,300.5**	**1,378.0**	**(10.2)**	**1,367.8**
Intangible assets	2,463.2	(1.2)	2,462.0	2,466.4		2,466.4
Other non-current operating assets	6.5	(6.5)		6.2	(6.2)	
Deferred tax assets	144.2	(44.5)	99.7	159.6	(45.0)	114.6
Total non-current assets	**2,980.6**	**(52.2)**	**2,928.4**	**2,985.3**	**(51.2)**	**2,934.1**
Total assets	**4,292.5**	**(63.6)**	**4,228.9**	**4,363.4**	**(61.4)**	**4,302.0**

Liabilities and equity CHF million			**31.3.2019**			**1.4.2018**
	As reported with IFRS 15	IFRS 15 effect	Without IFRS 15	With IFRS 15	IFRS 15 effect	Without IFRS 15
Short-term contract liabilities	106.5	(106.5)		109.7	(109.7)	
Other short-term operating liabilities	296.0	33.2	329.2	242.6	33.1	275.7
Short-term provisions	129.2	(4.3)	124.9	121.8	(3.9)	117.9
Total current liabilities	**1,030.1**	**(77.6)**	**952.5**	**866.9**	**(80.6)**	**786.3**
Long-term provisions	122.9	23.9	146.8	142.8	23.7	166.5
Long-term contract liabilities	226.1	(226.1)		225.3	(225.3)	
Other long-term operating liabilities	26.0	101.2	127.2	7.0	106.9	113.9
Deferred tax liabilities	138.6	(12.1)	126.5	153.9	(12.6)	141.3
Total non-current liabilities	**886.3**	**(113.1)**	**773.2**	**1,148.1**	**(107.3)**	**1,040.8**
Total liabilities	**1,916.3**	**(190.7)**	**1,725.6**	**2,015.0**	**(187.9)**	**1,827.1**
Retained earnings and reserves	2,517.5	127.1	2,644.6	2,322.6	126.4	2,449.0
Equity attributable to equity holders of the parent	**2,353.8**	**127.1**	**2,480.9**	**2,325.3**	**126.4**	**2,451.7**
Non-controlling interests	22.3	0.1	22.4	23.1	0.1	23.2
Equity	**2,376.1**	**127.2**	**2,503.3**	**2,348.4**	**126.5**	**2,474.9**
Total liabilities and equity	**4,292.5**	**(63.6)**	**4,228.9**	**4,363.4**	**(61.4)**	**4,302.0**

IFRS 9 “Financial instruments”

The new standard completes the guidance on recognition/derecognition of financial instruments. It includes revised principles on classification and measurement of financial instruments, including a new expected credit loss model for calculating provisions for impairments on financial assets.

The Group has adopted IFRS 9 using the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported.

The impact of transition to IFRS 9 on retained earnings as at April 1, 2018 is a decrease of CHF 6.5 million due to additional allowances.

There was no material impact on the Group’s consolidated income statement for the financial year ending March 31, 2019.

Change in classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The classification categories are disclosed in Note 4.4 “Other financial assets” and Note 4.5 “Financial liabilities.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The effect of adopting IFRS 9 on the carrying amounts of financial assets at April 1, 2018 relates solely to the new impairment requirements. An increase in the allowance was recognized as of April 1, 2018 on transition to IFRS 9 as described below.

Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortized cost.

The Group applies the IFRS 9 simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for trade receivables. This resulted in an increase of the allowance for doubtful receivables on April 1, 2018 in the amount of CHF 5.1 million (refer to Note 4.7).

The impact of the application of the expected credit loss model for other financial assets (i.e. loans) on transition to IFRS 9 was not material.

pwc

Report of the statutory auditor to the General Meeting of Sonova Holding AG

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sonova Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheets as at 31 March 2019 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 22,000,000

We concluded full scope audit work at 25 reporting units in 11 countries. Our audit scope addressed over 67% of the Group's revenue and 76% of the Group's assets.

In addition, specified procedures were performed for 6 reporting units in 6 countries representing a further 8% of the Group's revenue and 5% of the Group's assets and limited reviews for 3 reporting units in 1 country representing a further 1% of the Group's revenue and 9% of the Group's assets.

As key audit matters the following areas of focus have been identified:

Goodwill impairment assessment

Provisions for product liabilities

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall materiality	CHF 22,000,000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark. The use of the average number of the last three years avoids volatility effects in the profit before tax.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group is primarily structured across two operating segments: Hearing Instruments and Cochlear Implants. Both segments are active in several markets, mainly Americas, Europe, Asia, Australia and South East Asia. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group audit team, by component auditors from PwC network firms and component auditors from other firms operating under our instructions. The group consolidation, financial statement disclosures and goodwill are audited by the group Engagement team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. Our Group engagement team’s involvement included various conference calls with component Auditors during the planning phase, interim and final audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment

Key audit matter	How our audit addressed the key audit matter
The Group has goodwill of CHF 1,963.3 million at March 31, 2019. The goodwill impairment assessment is considered as a key audit matter due to the magnitude of the balance as well as the considerable judgements and estimates made by Management. The judgements and estimates include the initial valuation and subsequent determination of the timing and measurement of an impairment charge, if any. Management's impairment assessment includes the determination of the cash generating units (CGU's), the future cash flow forecasts and discount rates applied. Refer to note 3.4 (Intangible assets).	We have obtained impairment assessments for the CGU Hearing Instruments and the CGU Cochlear Implants from Management and performed the following procedures, amongst other: We assessed and tested the design of the controls over the Group's Budget- and Management Reporting process, which is the basis for the future cash flow forecasts. We sought to ensure Management had followed a robust process for drawing up future cash flow forecasts, which included the timely oversight and discussion with the Board of Directors and which was consistent with the Board of Directors approved budgets. We assessed the identification of the relevant CGUs. We evaluated and challenged the reasonableness of Management's key assumptions applied in its impairment assessments for: • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the key assumptions had with hindsight, been reasonable. • Any significant changes to key assumptions from prior periods by considering whether they had been applied appropriately in the cash flow projection. • Growth rates, by comparing them to economic and industry forecasts and operating margins with comparable companies. • Discount rate, with support of our valuation experts, by assessing the risk adjusted cost of capital used to derive the discount rate for the Group and comparable organisations. We performed our own sensitivity analysis around the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for goodwill to be impaired. We found Management's impairment assessments were based upon reasonable assumptions and consistently applied.

Provisions for product liabilities

Key audit matter	How our audit addressed the key audit matter
Provisions for product liabilities amounted to CHF 100.9 million as of March 31, 2019. We focused on the provision for product liabilities related to the voluntary product recall of Advanced Bionics LLC in 2006 (for further details refer to note 3.6 (Provisions)), due to the inherent uncertainty of outcomes and timing of recognition of the liability. In addition, the eventual outcome of any claims is dependent on a number of future events and therefore the positions taken by Management are highly judgmental and can materially affect the Group's result.	In response to the risk, our audit procedures included, assessing management's process around the identification and evaluation of respective claims, proceedings and investigations at different levels in the organisation and the recording and continuous reassessment of the related provision and disclosures. We inquired with executive management as well as legal and financial personnel in respect of ongoing investigations, claims and proceedings. We inspected relevant correspondence and the minutes of the meetings of the Audit Committee and Board of Directors. We also received external legal confirmation letters from relevant external legal counsels. Management use a developed model to calculate the product liability (the Model). Generally, the key assumptions within the Model are consistent to the prior year. The provision is based on historical average claim rates and costs per claim. We tested the Model's mathematical integrity, the accuracy of the underlying calculation and the overall provision, including its key determining factors like devices in the market, failure rates, claim rates and costs per case. We selected samples for settlements and assessed whether the settlements support the key determining factors used in the Model. Based on our procedures performed, the provision had been reasonably based on the information currently available to Management.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Sonova Holding AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Sandra Boehm Audit expert Auditor in charge	Dominik Hattrup Audit expert

Zürich, 17 May 2019

Enclosure:

- Consolidated financial statements (consolidated balance sheets, consolidated income statements, consolidated statement of comprehensive income, consolidated cash flow statements, consolidated changes in equity and notes to the consolidated financial statements as of March 31, 2019)